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INCOME TAXATION

METHODS AND RESULTS IN VARIOUS COUNTRIES

BY

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PREFACE.

It is not the purpose of this book to discuss the question of income taxation from a theoretical standpoint; but rather to collate the more important facts regarding methods and results of such taxation in various countries and to present them in such a manner that they will be useful and readily available to business men, legislators, students and others who may wish to study the subject from its practical side.

The passage of the Corporation Tax Law, which is a form of income tax, the proposition to amend the Constitution so as to permit the levy of a Federal income tax, and the agitation in some states for local income taxes, have all contributed to awaken a special interest in this form of taxation. The last Federal income tax in the United States was repealed nearly forty years ago and the present generation has almost forgotten that such a tax ever formed an important part of our fiscal system. But recent events have brought this form of taxation into the foreground of public discussion and it becomes important to know what results have been attained by it in this and other countries.

The subject is too large to be treated with any pretension of thoroughness in a single volume and the constant necessity for condensation has given the book more of a statistical character than was originally intended. The facts which are presented have been gathered from a great variety of sources, many of which are books in foreign languages not readily accessible to the average reader. For the benefit of those who may desire to investigate the subject more thoroughly numerous references have been made in the notes to such authorities and sources of information as have been found most instructive and helpful.

Milwaukee, November 10, 1910.

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CHAPTER I.

DEFINITIONS.

The necessity for a chapter on definitions may not be at once apparent; but when it is seen how much confusion has arisen from the various meanings given to even the most common words connected with the subject of taxation, the importance of defining clearly some of the terms most frequently used will be conceded. In the words of a French writer upon taxation: "So long as writers use words which have no precise signification, which may be and are interpreted in a variety of ways, and which may convey different ideas to different minds, there will be uncertainty in their theories, or rather there will be vague, incomplete and poorly co-ordinated theories; and then, as all practice is the application of theories, the practice resulting from them will be faulty."

Income. In its general sense income has been defined to be "that which comes in to a person as payment for labor or services rendered in some office, or as gains from lands, business, the investment of capital, etc.; receipts or emoluments regularly accruing either in a given time or, when unqualified, annually; the annual receipts of a person or corpora-

tion; revenue.”¹ It is evident that the above definition, in so far as it mentions *gains*, has reference to *net* income, while the latter portion of the definition would apply to *gross* income, or gross receipts. That gross receipts may differ widely from the popular conception of income will be seen if we take as an illustration the case of a merchant who may receive large sums of money in the course of a year only to find himself bankrupt at the end of that period. It would hardly be said of him that he had an income to the amount of his gross receipts. On the other hand, in the case of a man who has no other income than his salary, it might be said that his income and his gross receipts were identical.

The idea of income will differ somewhat according to whether it is considered as derived from services or from property. For example, income has been defined as “the returns which come in to the individual as the result of his economic activities, or from his control of the economic activities of others;” while another writer, having in mind the income from property, says that it “consists of what the property produces; the profit which comes from its use in business or what is paid for its use by another than its owner.”²

It is important to differentiate between the economic and legal conceptions of income. A Ger-

1. Century Dictionary. Webster's New International Dictionary (1910) defines income as “that gain or recurrent benefit (usually measured in money) which proceeds from labor, business or property; commercial revenue or receipts of any kind, including wages or salaries, the proceeds of agriculture and commerce, the rent of houses or the return on investments.”

2. Howe. The American Law relating to Income, p. 1.

man writer on political economy has defined income as the sum of economic goods or gains accruing to a person within a given period, which are not needed to replace capital and which the person may therefore consume without diminishing his wealth.³ This is perhaps a fairly typical definition out of many which might be quoted; but when an attempt is made to draw the line between income and capital, wide divergences of opinion are noted. Professor Irving Fisher has written a book of several hundred pages upon "The Nature of Capital and Income," in which he argues that the services which a man receives from his profits and gains is all that can properly be called income. In other words, he would make expenditure or consumption the basis of income taxation.⁴ He draws rather fine distinctions between income, savings and earnings and argues that savings are not in-

3. "Unter Einkommen versteht man die Summe der einer Person in einem bestimmten Zeitraume zufließenden wirtschaftlichen Güter oder Wertherhöhungen, welche nicht Ersatz von Kapital sind und von derselben daher ohne Verminderung ihres Vermögens verzehrt werden können." Th. Mithoff in Handbuch der politischen Oekonomie. Vol. 1, p. 590. "Income in an economic sense implies an increase of wealth in addition to that which is already possessed and which comes in within a definite period of time, giving an increased power of satisfying wants within that time. Only net income is such income." Weston, Principles of Justice in Taxation, p. 179.

4. As an illustration of Fisher's theory as applied to the income tax the following example may be instructive: Three brothers each supposedly inheriting \$10,000, are subjected to an income tax. The first invests his \$10,000 in a perpetual annuity of \$500; the second deposits his portion in trust to be invested in an annuity of \$1,000 to begin at the end of fourteen years, after the capital has doubled; the third, a spendthrift, buys an annuity of nearly \$2,000 for six years. According to Fisher, the \$500, the \$1,000 and the \$2,000 are the true realized incomes which alone should be taxed under income taxation; the second brother should be taxed on nothing until after fourteen years, as until then he would be spending nothing; and the third brother should be taxed during his brief spendthrift career on an income of \$2,000.

come, a conclusion which is sharply criticized and disputed by some good authorities.⁵

It might be expected that the courts and law-makers would be exact and uniform in their definition of income in a legal sense, but unfortunately they are not, as the following extracts from some of the decisions will show.

In a New York decision often cited the Court used the following language:

It is undoubtedly true that "profit" and "income" are sometimes used as synonymous terms; but, strictly speaking, "income" means that which comes in or is received from any business or investment of capital, without reference to the outgoing expenditures, while "profits" generally mean the gain which is made upon any business or investment when both receipts and payments are taken into account. "Income" when applied to the affairs of individuals, expresses the same idea that "revenue" does when applied to the affairs of a state or nation; and no one would think of denying that our government has any revenue, because for a stated period the expenditures may exceed the amount of the receipts.⁶

Upon the question of whether or not income could be considered property, it has been held:

Gross earnings and interest coming in from any source, labor, capital investment of any sort, or money loaned, are not property in the sense of the constitution, but are merely income. Certainly the gross earnings of a laboring man are nothing but his income. So it would seem that the earnings of a salaried officer are income, and so the income from capital employed in a bank or railroad or manufacture would seem to be income only. The net income after the expenses are paid becomes property when invested, or, if it be money

⁵. See criticism of Fisher's book by Frank A. Fetter in *Journal of Political Economy*, Vol. 15, p. 129. See also article, "Are Savings Income?" and discussion of same in *Publications of American Economic Association*, Third Series, Vol. IX, p. 48, *et seq.*

⁶. *People vs. Niagara County Supervisors*, 4 Hill (N. Y.) 20.

lying in a bank or locked up at home. But to call it property, when it is all consumed as fast as it arises—going on the back, in the stomach, or in carriages and horses, which are taxed, or in travel or frolic—to call such income, so used, property would seem to be a perversion of the term.⁷

As against this “gross receipts” conception of income we have such expressions as the following: “The income of an estate means nothing more than the profit it will yield, after deducting the charges of management or the rent which may be obtained for the use of it. The rent and profit of an estate or the income or the net income of it are all equivalent expressions.”⁸ “Income is defined as that gain which proceeds from labor, business or property of any kind; the profits of commerce or business.”⁹ “In the

7. *Waring vs. City of Savannah*, 60 Ga. 93-99. In the course of the opinion, the court makes use of the following apt illustration: “The fact is, property is a tree; income is the fruit; labor is a tree; income the fruit; capital a tree; income the fruit. The fruit, if not consumed as fast as it ripens, will germinate from the seed which it enclosed, and will produce other trees, and grow into more property; but so long as it is fruit, merely, and plucked to eat, and consumed in the eating, it is no tree, and will produce itself no fruit.”

Compare President Hadley’s statement: “Capital is constantly being converted into income and income into capital. But capital under all times and conditions is measured as a quantity, while income is more properly measured as a rate. Capital is a static conception independent of time; income a dynamic conception involving the element of time.” *Economics*, p. 5.

8. *Andrews vs. Boyd*, 5 Me. (5 Greenleaf) 199-203. See also *Earl vs. Rowe*, 35 Me. 414-420. *Simcoke vs. Sayre*, 126 N. W. Rep. p. 816. (Iowa Supreme Court, June 16, 1910.) In the latter case dividends and profits are distinguished as follows: “The word ‘dividends’ has a peculiar and definite significance. It means a distributive sum, share or percentage arising from some joint venture as a corporation or a proportionate amount arising from a bankrupt or other estate. The term ‘profit’ has a much larger meaning, however, and covers benefits of any kind, excess of value over cost, acquisition beyond expenditure or advance. It is broad enough to cover any sort of advantage, advance or gain.”

9. *Appeal of Braun*, 105 Pa. 414-415.

Thorn vs. DeBreteuil, 83 N. Y. Sup. 849-856.

Appeal of Eley (Pa.) 2 Kulp, 467-469.

ordinary commercial sense, 'income,' especially when connected with the word 'rent,' may mean clear or net income."¹⁰

The Federal income tax law of 1862, levied a tax "upon the annual gains, profits or income of every person." In Sections 27 and 28 of the income tax law of 1894, which was held unconstitutional, the words "gains, profit and income" occur repeatedly, while in Section 32 the reference is to "net profits or income" and "net annual profits." The Corporation Tax Law of 1909, applies specifically to net income and rules are given for determining what is net income and what is gross income.

Thus it appears that "income" is used both in a broad sense referring to gross receipts and in a narrower sense as equivalent to net gains or profits. The latter meaning seems to have the greater weight of authority and to be most nearly in accord with the popular conception of income. The word *income* will therefore be used in this book in the restricted sense of *annual net earnings, profits or gains*.¹¹

Tax. A well known writer on taxation has said that no correct definition of a tax has yet been framed. Dr. Richard T. Ely, in his "Taxation in American States and Cities," makes substantially the same as-

¹⁰. Thompson's Appeal, 100 Pa. 478-481.

¹¹. For a large number of court decisions holding that the usual and ordinary meaning of the word income is net income and defining income as "the balance of gain over loss in the fiscal year or other period of computation;" "what is left after paying the expense of earning income;" "that which property or business earns, remaining intact," etc., see Cyclopedia of Law and Procedure, Vol. 22, p. 63. In Canada income is defined by statute to mean the annual profits or gain arising to any inhabitant from any trade, etc. New Brunswick Gen. Ass't Act. (quoted in Lawless vs. Sullivan, 6 App. cases 373-381). 50 L. J. P. C. 33. 44 L. T. Rep. N. S. 897.

sertion, and after criticizing the definitions of Cooley and others suggests the following definition as accurate and complete:

• Taxes are simply one-sided transfers of economic goods or services demanded of the citizens and occasionally of those not citizens, but who, nevertheless, are within reach of the taxing power, by the constituted authorities of the land for meeting the expenses of government, or for some other purpose, with the intention that a common burden shall be maintained by common contributions or sacrifices.¹² .

At the risk of seeming presumptuous, we venture the suggestion that whatever taxes may be, they are not "transfers." Many taxes are levied and assessed which are not collected. In such case there is no transfer, "one-sided" or otherwise. The definition seems inconsistent with the statement which immediately follows that "taxes are not an exchange nor are they a payment." Judge Cooley has defined taxes as "*the enforced proportional contribution from persons and property, levied by the State, by virtue of its sovereignty, for the support of government and for all public needs.*"¹³ In another place he says: "Taxes are understood to be burdens or charges imposed by the Legislature upon persons or property, to raise money for public purposes."¹⁴

Dr. Ely would criticize both of these definitions as referring solely to public needs and public purposes, claiming that taxes are often levied for other purposes. But Judge Cooley's answer to this is: "A burden, laid not for the purpose of producing revenue, but in order to accomplish some ulterior object which

¹². Ely, *Taxation in American States and Cities*, p. 6.

¹³. Cooley on *Taxation*, 3rd Ed., p. 1.

¹⁴. Cooley, *Constitutional Limitations*, p. 479.

the general government lacks the power otherwise to accomplish, * * * comes under no definition of the word 'tax' which is recognized in public law."¹⁵ As for taxes for private purposes, it must be remembered that the Supreme Court of the United States has held that "there can be no lawful tax which is not laid for a public purpose."¹⁶

Judge Cooley's definition of taxes, if not the best, is at least one of the best which has come to my notice thus far and I am disposed to adopt it until a better one is presented.¹⁷

Income Taxes. It might be supposed that if the definitions of income and taxes were understood there could be no doubt about the meaning of income tax; but many disputes have arisen as to whether certain taxes could properly be called income taxes or not. For example, the graduated poll taxes of 1379 in England and the progressive forced loans—*les emprunts forcés progressifs*—of the French Revolution have been both claimed and repudiated as income taxes.

¹⁵. Cooley on Taxation, 3rd Ed., p. 191.

¹⁶. Loan Association vs. Topeka, 20 Wallace (U. S.) 655-664.

¹⁷. Among the many definitions of taxes the following are worthy of notice: "The public revenues are a portion which each subject gives of his property in order to secure and enjoy the remainder." Montesquieu, *Esprit des Lois*, Livre XIII, Ch. 1. "Every contribution regularly demanded of the citizens by the constituted authorities of the land for meeting the expenses of government, is a tax." Leroy-Beaulieu, *Traité de la Science des Finances*, Vol. 1 (2nd Ed.) p. 105. "A tax is that part of the wealth of private individuals which the authority of the state, province or municipality appropriates in order to provide for the public expenses incurred for the advantage of the general body of the taxpayers." Cossa, *Scienza delle Finanze*, Ch. IV, p. 50. "Taxes are burdens or charges imposed by the legislative power of a state upon persons or property for public uses." Chief Justice Dixon in *Knowlton vs. Supervisors of Rock County*, 9 Wis. 410. (Evidently quoted from opinion of Judge Bronson in *Sharp vs. Speir*, 4 Hill (N. Y.) p. 76.)

In like manner the early "faculty taxes" of the American colonies are often spoken of as income taxes, though good authorities deny that such designation is proper.¹⁸

¹⁸ In a broad sense *an income tax is a tax the amount of which is determined with reference to the income of the taxpayer.*¹⁹ It is thus distinguished from the property tax, the amount of which is determined with reference to the value of the property.

Income taxes may be divided into proportional and graduated.

Proportional income taxes are such as are levied at a uniform rate upon all incomes regardless of the amount.²⁰ For example, a tax of one per cent upon all income would be a strictly proportional income tax. The ordinary property tax is proportional when a uniform percentage of tax is levied upon all property. The Federal Corporation Tax Law, passed in 1909, was a proportional tax as to all incomes of corporations above \$5,000, but was not proportional as to *all* incomes of corporations because of the distinction between incomes exceeding \$5,000 and those of less amount. It is therefore not strictly correct to call any income tax proportional which provides for

¹⁸. Seligman, *The Income Tax in the American Colonies and States*. *Political Science Quarterly*, Vol. 10, p. 247, June, 1895.

¹⁹. "The income tax is a direct levy by the government upon the income of individual citizens, whether that income is received from labor, industry, investments, real estate, or any other source." *New Encyclopedia of Social Reform*.

²⁰. "A tax may be said to be proportional when the mathematical relation between the amount of the tax and that of the thing taxed remains the same." Seligman, *Progressive Taxation in Theory and Practice*, p. 3.

an exemption, even though the rate may be uniform on all sums above the exemption.

Graduated income taxes are taxes levied at varying rates proportioned to the amount of income. The term graduated taxation is sometimes used, especially in England, as if it were synonymous with progressive taxation; but progressive taxation is only one variety of graduated taxation.

Graduated taxes may be divided into progressive, regressive and degressive.

Progressive income taxes are such as are based upon higher rates as the amount of the income increases. The Federal Income Tax Law of June 30, 1864, was crudely progressive.²¹ According to its provisions,

All income below \$600 was.....	exempt
Over \$600 up to \$5,000 paid.....	5%
“ \$ 5,000 up to \$10,000 paid.....	7½%
“ \$10,000 paid.....	10%

A progressive tax in the most accurate sense would be one which increased at a geometrical ratio. It has been suggested that a tax, the rate of which increased in arithmetical ratio, should be called a proportional progressive tax; but as these ratios can be used to a very limited extent only, the distinction is not important.²²

²¹. Ch. 173, §§ 116-123. (13 Statutes at Large 223-281.)

²². An attempt has been made to illustrate proportional progression in Appendix A, but it will be observed that any exemption of smaller incomes would interfere with the symmetry of the scheme. If the rate from one per cent. to ten per cent. increased continuously and in proportion to each dollar of increase of income, the tax would be represented by the dotted line.

Regressive income taxes are such as are based upon *lower* rates as the amount of income *increases*. In general a regressive tax would be the reverse of a progressive tax. For example, if the law of 1864, above referred to, had levied a tax of 10% on incomes of from \$600 to \$5,000, of 7½% on incomes from \$5,000 to \$10,000 and 5% on all incomes over \$10,000, that would have been a regressive tax. Such taxes are not common, but have been levied occasionally in England and in France.²³

Degressive income taxes are such as have a diminishing rate as the incomes grow smaller—reckoning downward from a point where the rate is constant. It will be readily seen that any progressive income tax must eventually reach a point beyond which further progression would be useless and at that point the rate will necessarily become constant, or proportional. If the tax is progressive up to that point, it will be degressive from that point downward. The one is the converse of the other. A scale of rates of taxation may be compared to a stairway. Ascending the stairway, the rate is progressive; descending, it is degressive; but it is the same stairway in either case.²⁴

²³. For example, a tax on incomes, salaries and mortgages was levied by a French ordinance of 1356. Incomes of from 1 to 10 livres paid 10 sols; those from 10 to 40 livres paid a tax of 1 livre; those from 40 to 100, 2 livres.

²⁴. "On a parfois parlé, employant un néologisme, de l'impôt dégressif. Un impôt dégressif, c'est un impôt progressif regardé par l'autre côté. L'objet est le même. L'échelle ne cesse pas d'être une échelle, elle ne change pas selon que vous la gravisiez ou que vous la descendiez." Roche, *L'Impôt sur le Revenu*, p. 263. "Degressive taxation: Designating or pertaining to a plan of taxation in which the rate is constant on sums above a certain limit, but diminished on sums counted downward below the limit." Webster's

The proportional rate may be regarded as the normal one and diminishing rates below that are degressive. This may be illustrated by the Swedish income tax law which has a proportional rate of one per cent for all incomes from 4,000 to 6,000 kronor. From 4,000 kronor downward the rates are rendered degressive by increasingly large abatements from the amount of income taxed; while the tax on incomes above 6,100 kronor is rendered progressive by increasing additions to the amount of taxable income until four per cent is reached, after which it again becomes proportional.²⁵

Exemptions. The income tax laws of nearly every country recognize the fact that there is a point, sometimes spoken of as "the minimum of existence," below which taxation of incomes is inexpedient. It is therefore customary to specify a certain sum at the bottom of the scale which shall not be liable to income tax and this sum is commonly called an exemption. The chief argument for such exemptions is that if the State takes away any portion of the money which the working man or poor person needs for

New International Dictionary. The word "degressive" is not found in the Century nor in Worcester. Its primary meaning is a going down, or descent. It is often used erroneously in the sense of *regressive*, in which the primary meaning is a movement backward. As examples of the incorrect definition and use of the word we give the following: "Degressive means that a certain amount of taxable income is exempt." (!) New Encyclopedia of Social Reform. "Practically this amounts to degressive taxation, so-called, namely, the exemption of the minimum of existence." Daniels, Public Finance, p. 89. In Prof. Ely's "Taxation in American States and Cities," p. 77, it is said that "A tax is digressive when a certain sum is exempt from taxation, and the excess, above a certain sum, is taxed at a uniform rate."

²⁵. See Chap. X, post. The Swedish kronor is equal to 26.8 cents of American money.

actual subsistence, it will have to return it in the form of charity. It is also true that the cost of collection in the case of very small incomes would probably exceed the amount collected. The proposed new income tax law in France recognizes the fact that the cost of living in large cities is much greater than in small villages, and proportions the exemption according to the number of inhabitants of the commune in which the taxpayer resides. The law in Denmark makes a similar distinction.

It is important to note the difference between granting an exemption of a certain sum for *all* incomes and the mere exemptions of incomes below a certain amount. In most countries whatever exemption is allowed at the foot of the scale applies to all incomes regardless of amount; so that, if the exemption amounted to \$600, the person enjoying an income of \$1,000 would pay tax on only \$400; while in other countries an exemption of \$600 would apply only to incomes of that amount or less, while incomes of more than \$600 would be taxed on their full amount as if there were no exemption. In some of the income tax laws in this and other countries it is by no means easy to decide which method was intended.

Abatements. While exemptions are often spoken of as abatements and *vice versa* it seems desirable that the word exemption should be reserved to designate the portion of income at the foot of the scale which is free from taxation; and abatements should apply to deductions from the income, or tax on income, above that sum. The effect of abatements which diminish in amount as the income grows larger is to give the

tax a more progressive character than it would otherwise have. For example, the English income tax of 1806 provided for a uniform rate of 10 per cent upon all incomes. But there was an exemption of £50 and a series of abatements on the amount of tax, which began with 100 shillings,²⁶ (10 per cent of £50) and decreased at the rate of one shilling for every additional pound of income up to £150 where the abatements ceased. The effect of these abatements upon the amount of tax will be seen by the following table:

Income	Tax (10%)	Abatement	Net tax	Percentage of tax to income
£ 50 = 1,000 s.	100 s.	100 s.	0 s.	0
£ 51 = 1,020 s.	102 s.	99 s.	3 s.	0.29
£ 52 = 1,040 s.	104 s.	98 s.	6 s.	0.57
£ 53 = 1,060 s.	106 s.	97 s.	9 s.	0.83
and so on up to £ 100 = 2,000 s.	200 s.	50 s.	150 s.	7.5
and to £ 149 = 2,980 s.	298 s.	1 s.	297 s.	9.9
£ 150 = 3,000 s.	300 s.	0	300 s.	10.

A peculiar feature of this unique plan was that it was an example of strictly arithmetical progression as to incomes of from £50 to £150, the tax increasing at the uniform rate of three shillings for each pound and thus while the rate of taxation was nominally ten per cent, the amount of tax paid varied from less than one per cent to ten percent.

Examples of diminishing abatements on the amount of income assessed may be found in the case of Sweden, the Grand Duchy of Baden, and the Canton of Zurich.

²⁶. The English shilling is equal to 12 d. (pence) or 24 1/3 cents of American money. A pound is 20 shillings, and its value is \$4.866½.

In several countries special abatements of a fixed sum are allowed for children or other dependents whom the taxpayer has to support, and in some cases even for sickness, accident, business reverses, or other unusual circumstances affecting the taxpayer's income.

Differentiation. This word has acquired a slightly technical use in connection with income taxation.²⁷ It is most commonly used in referring to the distinction between "earned and unearned" or "precarious and permanent" income. "Earned" incomes are those which are obtained by personal exertion while "unearned" incomes are such as are received from investments in property, bonds, etc.²⁸ It is argued with much force that these forms of income should be differentiated and a lighter tax applied to the earned incomes. In some of the Australian states incomes from property are taxed at double the rate which is applied to incomes from personal exertion. It is probable that, as theories of income taxation are more fully developed, further differentiations along other lines will be introduced.²⁹

²⁷. "Differentiation, as distinguished from graduation, occurs when a different rate is levied on different kinds (as distinguished from different amounts) of income or property." Memorandum of Board of Inland Revenue (England) in Reports from His Majesty's Representatives abroad respecting Graduated Income Taxes in Foreign States, 1905, p. XII.

²⁸. Other expressions are: "precarious" and "permanent;" but, if these words are used—as Sir Henry Primrose has pointed out—"attention must be concentrated rather on future contingencies which may influence the treatment of income by the prudent holder" than upon the mere effort required to produce income.

²⁹. The proposed new French law provides for differentiation in the amount of exemption according to the size of the city or commune in which the taxpayers reside, and a similar provision is found in Denmark. In Spain incomes are divided into a great number of classes, without reference to any apparent basis, and varying rates applied to each class.

Supplemental tax and Super-tax. The progressive character of a tax may be accentuated not only by gradually decreasing abatements which start from the bottom of the scale, but also by increasing additions to the rate or to incomes in the higher grades. Perhaps the best example of such additions is found in Sweden, where a one per cent rate is made to yield practically a four per cent tax as the result of arbitrary additions to the income. But the supplementary tax (*Ergaenzungssteuer*), as it is applied in Germany, is not such a tax, but rather a separate and distinct income tax, lower in rate and more all-inclusive as to income than the general income tax. The French *impôt complémentaire* (complementary tax) is very similar in scope.

A supplemental tax can take the form of a sort of progressive "tax upon a tax," as in the Canton of Schaffhausen, in Switzerland, where a tax is levied upon the amount of income tax, the rate varying from 5 per cent on amounts between 26 and 50 francs to 50 per cent on amounts over 500 francs (\$100). It would seem as though the term *super-tax* could very properly be applied to a tax which is thus superimposed upon another; yet the English super-tax is not proportioned to the amount of *tax*, but to the amount of income. The Finance Bill of 1909, which has met with so much opposition in the British Parliament, contains the following provision:

In addition to the income tax charged at the rate of one shilling and twopence under this Act, there shall be charged, levied, and paid for the year beginning on the sixth day of April, nineteen hundred and nine, in respect of the income of any individual, the total of which from all sources exceeds five thousand pounds, an additional duty of income tax (in

this Act referred to as a super-tax) at the rate of sixpence for every pound of the amount by which the total income exceeds three thousand pounds.

The evident purpose of this law is to collect a proportionally larger amount from the larger incomes without adopting a progressive rate.

Direct Taxes. The distinction between direct and indirect taxes is one which has occupied the attention of political economists in this country and Europe for many years. Direct taxes are sometimes defined as those which cannot be shifted, but this definition has received much well-deserved criticism. Another line of distinction has been drawn between taxes on production and taxes on consumption—the former being termed direct and the latter indirect taxes. A third definition which has more to commend it is as follows: direct taxes are such as are levied with reference to the *ability* of the taxpayer, as indicated by his property or income, while indirect taxes are such as are levied without reference to the ability of those who may pay them.³⁰

Without entering into a discussion of the theories which lie behind these definitions, it may suffice to say that, as a matter of practice, particularly on the European continent, customs, excises and stamp duties are treated as indirect taxes, while taxes levied upon the individual at regular intervals, upon the basis of his property or income are called direct.

In the following pages the expressions direct and indirect taxation are used in accordance with this practice.

³⁰. Fuisting, B. *Die Preussischen direkten Steuern*. Vol. 4 (1902), p. 22. *Handbuch der politischen Oekonomie*, Vol. 3, p. 176. Ely, Richard T. *Taxation in American States and Cities*, pp. 67-73. Bullock, Charles J. Direct and indirect taxes in economic literature. *Political Science Quarterly*, Vol. 13 (Sept. 1898), pp. 442-476.

CHAPTER II.

AUSTRALASIA.¹

NEW SOUTH WALES, NEW ZEALAND, QUEENSLAND, SOUTH
AUSTRALIA, TASMANIA, VICTORIA, WESTERN
AUSTRALIA.

There are undoubtedly some people who still have a vague idea of Australia as a half-savage, undeveloped country, peopled largely by ex-convicts. To such persons it may seem strange that we should go to the Antipodes to begin our study of income taxation; but when it is realized that the Australian Commonwealth is nearly as large as the United States (excluding Alaska); that it has a population of four millions, of whom ninety-seven per cent are of pure British descent and that these people are wealthy, intelligent, prosperous and progressive to a remarkable

¹. The term Australasia is used somewhat loosely to designate the continent of Australia and the British Colonies in the Islands of Tasmania, Fiji, New Guinea and New Zealand. Since Jan. 1, 1901, the Australian Commonwealth, consisting of the States of New South Wales, Victoria, South Australia, Queensland, Western Australia and Tasmania, has had a constitution much resembling that of the United States and it enjoys a large measure of self-government. New Zealand is situated 1,200 miles from Australia and is an independent colony.

degree,² it becomes evident that the experiences of such a country cannot well be ignored. Australia and New Zealand have been called the world's laboratories of political experiment. These countries have become notable in recent years because of their application of State Socialism to many phases of industry. State ownership and operation of railways and telegraphs, progressive taxes on land, incomes, property and inheritances, restrictions upon ownership of land, minimum wage laws, old age pensions and courts of industrial conciliation and arbitration, are among some of the radical measures which have been adopted. It is not surprising that the taxation of incomes should meet with favor in such a country and some of the plans which have been adopted present unique and interesting features.

New South Wales. In this State, under the "Land and Income Tax Act" of 1895, with its numerous amendments, there is a tax of one penny on the pound upon the unimproved value of real estate. The receipts from this tax are supplemented by a proportional income tax levied upon incomes not derived from land, or the produce or use of land, at the rate of 6 d. in the pound, or two and one-half per cent. This combined tax produces about one-twelfth of the whole revenue, excluding receipts from public utilities controlled by the state.³ The amount exempted is £200 (\$973.30). There is no differentiation between earned and unearned incomes. The yield of the tax in 1907-8

². Mr. T. A. Coghlan, Statistician for New South Wales, is authority for the statement that, in production per head, Australasia surpasses any other country for which records are available.

³. See testimony of T. A. Coghlan in Report from the Select Committee on Income Tax. (English Blue Book.) Nov., 1906, p. 90.

was £215,283 (\$1,046,367), which is about 20 per cent of the whole amount raised by taxation.

New Zealand. As in the case of New South Wales, the "Act to regulate the assessment of land and income for the purposes of taxation," passed September 8, 1891, makes the income tax complementary to a tax on the unimproved value of land,⁴ though in New Zealand there is this difference that the land tax is graduated. The income tax applies only to incomes above £300 (\$1,459.95) and the rate is 6 d. in the pound ($2\frac{1}{2}\%$) on the amount between £300 and £1,300 and one shilling (5%) on all above £1,300. The exemption of £300 does not apply to absentees or corporations. In computing incomes the rents and profits derived from the direct use and cultivation of land, as well as interest on mortgages, are not included. Were it not for the exemption of £300, which introduces a slight progression into the rates, it might be said that there were simply two proportional taxes—one of $2\frac{1}{2}\%$ per cent on incomes under £1,300 and one of 5 per cent on all incomes over £1,300. The abrupt doubling of the rate at £1,300 will no doubt result in causing many incomes to be returned as slightly under that sum, which are in fact larger.

The proportions which the income tax bears to land and other taxes will be seen from the following table:⁵

⁴. Of the total revenues, amounting in 1908 to £8,766,342, about two-thirds were met by the receipts from customs and from 3 per cent. to 4 per cent. by death duties (inheritance tax). The claim which is often made that New Zealand collects its taxes by means of the "single tax" is not supported by the facts. In 1908, the amount collected by land taxes, both proportional and graduated, was only 6 per cent. of the total revenue and only 45 per cent. of the amount raised by ordinary taxation.

⁵. Statesman's Handbook, 1909, p. 329.

Year (ending March 31.)	Land Tax	Income Tax	Total Revenue (exclusive of sales and rents of land.)
1904	£ 324,991	£ 221,369 (\$1,077,182)	£ 6,773,544
1905	352,854	253,952 (1,235,730)	7,022,849
1906	385,756	261,815 (1,273,992)	7,323,570
1907	447,342	277,867 (1,352,101)	8,148,175
1908	537,846	304,905 (1,483,668)	8,766,342

The total amount of income assessed in 1908 was £7,260,713 (\$35,330,629.46) and the number of income taxpayers 10,420 or 1.17 per cent of the population.⁶ For 1909, the net assessed income, after allowing for exemptions, was £7,549,596. The number of income taxpayers was 10,839 and of land taxpayers 30,855. It would thus appear that the average income of those who paid income tax was £696 (\$3,-386.74). The comparatively small number of taxpayers and the high average income are no doubt due to the large exemption. It is a significant fact that in the ten years from 1897-8 to 1907-8, the revenue from income tax increased 212 per cent, while the increase of population during the same period was only 30 per cent. The total cost of assessment and administration for the year 1908-9 was 2.05 per cent, while for the land tax it was 3.82 per cent.⁷

Queensland. The Income Tax Act of 1902 has been amended frequently and the present rates are those fixed by the Amendment Acts of 1906 and 1907. There is a differentiation, not only as to earned and unearned incomes, but also as to "natural persons" and corporations. In order to carry such differentia-

⁶. Sir Arthur P. Douglas. *The Dominion of New Zealand*, (1909) p. 189.

⁷. *New Zealand Official Yearbook*, 1909. For a more detailed account of the system of taxation in New Zealand see Seligman, *Essays in Taxation*, 2nd Ed., p. 314.

tion into effect, all incomes are divided into three classes which are taxed at different rates as follows:

- a) *Income derived from personal exertion:*
 Not exceeding £500 (\$2,433) 6d. for every pound = $2\frac{1}{2}\%$ ⁸
 Exceeding £500 and not over £1,000 (\$4,866.50) 6 d.
 for every pound of the first £500 = $2\frac{1}{2}\%$
 and 7 d. for all over £500 = 2.9 %
 Exceeding £1,000 and not over £1,500 (\$7,230) 7 d.
 for every pound of the first £1,000 = 2.9 %
 and 8 d. for all over £1,000 = 3.33%
 Exceeding £1,500 8 d. in the pound = 3.33%
 b) *Income from property:*
 9 d. in the pound = 3.75%
 c) *Income of companies and absentees:*
 1 shilling in the pound = 5. %

In the last class there is a provision that, in the case of a company whose head office is in Queensland, the income is assessed at not less than the amount of dividends declared during the year; and if the profits remain undistributed among the shareholders, the rate is 6 d. in the pound on such undistributed profits.

There is an exemption of £200 (\$973.30) which applies only to incomes from personal exertion. If

⁸. Attention should be called to the fact that the percentages given in this and subsequent tables, would be affected by the amount of exemption in all cases where the exemption is applied to *all* incomes. In most countries the exemption at the foot of the scale is deducted from all incomes, but in some instances the income above the amount of the exemption is taxed for its full amount, in the same manner as if there had been no exemption.

In the case of Queensland the £200 are deducted from *all* incomes derived from personal exertion regardless of the amount. Thus, for example, if such income amounted to £1,200 the £200 would be first deducted, leaving £1,000 and the tax would be

6 d. on the first £500 =	£12 1 s. 8 d.
7 d. on the second £500 =	£14 3 s. 4 d.
Total	£26 5 s.

It would thus appear that the amount of tax paid on the whole income of £1,200 was not $2\frac{1}{2}$ per cent. nor 2.9 per cent., nor the mean between those amounts, but 2.1 per cent. As the amount of tax grows larger the effect of the exemption upon the percentage as applied to total original income is less and less noticeable. For the sake of simplicity it has, therefore, seemed best to give the percentages as applied to each grade of income as fixed by the law.

the income exceeds £200 and the person has income both from his services and from property, the deduction is made in the first instance from that portion of the income accruing from personal exertion.

The deductions allowed in computing income are the ordinary expenses of business such as wages, taxes, rent, interest and bad debts written off within the year. The taxpayer is permitted to deduct from his income all sums paid for life insurance up to £50 (\$243). The method adopted to determine the gross income of a merchant is to add the amount of sales, both cash and credit, to the value of the stock at the end of the year and deduct from it the amount paid for goods during the year plus the value of stock at the beginning of the year.

Income from dividends is collected at the source and all persons engaged in business or having incomes of more than £100 are required to make returns. Payments of income tax can be made through local banks by simply depositing the amount in the bank to the credit of the commissioner who has charge of the collections. The cost of collection cannot be separated from other expenses, but is probably not over 3 per cent. The financial results for two years were as follows:

Year	Source of Income	Amount of Income	Amount of Tax	
1902-3	Personal exertion	£4,819,837	£141,894	
	Property	£ 563,613	£ 17,413	
	Total	£5,383,450	£159,307	= \$775,187.86
1903-4	Personal exertion	£5,624,756	£144,487	
	Property	£ 414,239	£ 14,196	
	Total	£6,038,995	£158,683	= \$772,005.50

The number of income taxpayers in 1902 was 90,419 or 16.7 per cent of the total population of 541,295.

The totals collected in the years following were:

1904-5	£253,918	1906-7	£284,476
1905-6	£264,957	1907-8	£271,299

which would be an average of \$1,306,309 per year. The income tax of 1906-7 amounted to 54 per cent of the total revenue from taxation in that year.

South Australia. By a law passed in 1884, South Australia was the first of the Australian colonies to adopt an income tax. The law makes a sharp distinction between income from property and income from personal exertion, the rate upon the former class of income being nearly double that upon the latter. The rates, as also the exemptions, are varied frequently to meet the fiscal needs of the state.

Income from *personal exertion* is taxed:

On incomes of £800 (\$3,893.20) or less,	4½d. in the £ = 1.87%
On incomes of more than £800	7 d. in the £ = 2.91%

Income from *property* is taxed:

On incomes of £800 or less,	9 d. in the £ = 3.75%
On incomes of more than £800	13½d. in the £ = 5.62½%

The income of a company is presumed by law to be derived from property and is taxable at the higher rates and without exemption.

Incomes which do not amount to £400 (\$1,946.60) are entitled to an exemption of £150⁹ (\$730); but such exemption does not apply to incomes of more than £400 nor to incomes of companies or non-residents. The amount of exemption has been changed frequently, having been successively 300, 200, 125,

⁹. Since writing the above we find a note in the Appendix to the Australian Yearbook (p. 1135) to the effect that by the Taxation Amendment Act of 1908 this exemption was increased to £200.

150, 135 and 150 pounds. There is a further exemption of all income derived from land which pays land tax providing the income does not exceed 5 per cent of the actual value. Income derived from land which does not exceed £1,000 in unimproved value is not taxed if it is the result of labor on the land.

Taxpayers are required to make returns of their incomes and the penalty for failing to do so is a fine not exceeding £20 and treble the amount of tax payable. False returns are punishable as wilful and corrupt perjury. A right of appeal to a local court is given at any time within two months after notice of assessment. The taxes are collected for the most part by salaried government officials. Country postmasters are also allowed to receive the tax and retain a small commission for doing so. The cost of collection is not known as it is blended with the cost of collecting the land tax. The cost of collecting both taxes in 1903-4 was a little over 5 per cent of which fully 3 per cent was due to the income tax.

Financial results. The amount of income tax for the year 1907-8 was £212,643 (\$1,034,724.84), which was 55.58 per cent of the total revenue. The rapid and steady increase of the income tax is shown by the amounts collected for the six preceding years, namely: 1901-2, £80,893; 1902-3, £114,720; 1903-4, £121,469; 1904-5, £136,866; 1905-6, £128,756; 1906-7, £166,582.

The yield of the tax has fluctuated considerably from year to year, owing to changes of rates and varying financial conditions; but on the whole the tendency has been to increase at the rate of about

5 per cent a year. The total income assessed in 1902 was £7,607,149 (\$37,016,387) and the number of income taxpayers 20,009 or 5.14 per cent of the total white population of 369,176.

Tasmania. There are two systems of direct taxation in Tasmania, each having the central idea of taxation according to financial ability. They are designated as

- a) The income tax proper, and
- b) The "Non-inquisitorial ability tax."

The first of these applies to those persons or companies whose incomes are derived from property or investments. The second is restricted to those who derive their income from personal exertion. The modified scheme of income tax proper, now in force, is supplementary to the land tax and to the non-inquisitorial tax, and these taxes are planned in such a way as to avoid overlapping or interference. For example, incomes derived by a taxpayer from land liable to the land tax, or from dividends declared by companies liable to taxation, are not included in the income tax return.

All "incomes proper" are divided into three classes:

1. Income of companies.
2. Income of persons, derived from property.
3. Dividends not included in either of the above classes.

The rate is one shilling in the pound (5%), but the tax is made progressive in the lower grades by a series of abatements, as will be seen by the following table:

Income	Abatement	Resulting percentage of Tax
Under £100 exempt		
£100 to £110	£80	1. to 1.36
110 " 120	70	1.84 " 2.08
120 " 150	60	2.50 " 3.
150 " 200	50	3.33 " 3.75
200 " 250	40	4. " 4.2
250 " 300	30	4.40 " 4.5
300 " 350	20	4.66 " 4.71
350 " 400	10	4.85 " 4.87
400 and over	None	5.

The above abatements do not apply to incomes from companies or from prizes in lotteries. In 1904 the number of persons subject to the tax was 1,522, and the amount of income assessed was £229,237, which constituted 2.75 per cent of the total income of the colony. The amount of income tax collected in 1904-5, was estimated at £51,400 (\$250,112.40).

The "non-inquisitorial ability tax" is intended to reach incomes from personal exertion, the amount of such incomes being determined by reference to the amount which the taxpayer pays, or is presumed to pay, for his habitation. It is claimed that there is a constant relation, within certain curves of graduation, between the income of an individual and the annual rental which he pays, as follows:

1. As to occupiers of ordinary dwellings, the income bears nearly the relation of seven to one.

2. As to ordinary adult lodgers the proportion which the amount annually expended on board and lodging bears to the whole income is about two to one in the lower incomes and about four to one in the higher incomes.

3. For farmers and others, whose business requires the possession of a larger amount of real estate

and whose buildings are inseparable from the land, the rental may amount to one-third of the income derived from the business, in case the culture is intense, or three-fourths of the income if a large area is needed, as in sheep raising.

The relation which rental bears to income was ascertained to be as follows :

With incomes of £	50	the rent amounts to £	10	or	1/5.
" " "	78	" " "	13	"	1/6.
" " "	150	" " "	25	"	1/6.
" " "	210	" " "	30	"	1/7.
" " "	400	" " "	50	"	1/8.
" " "	630	" " "	70	"	1/9.
" " "	900	" " "	90	"	1/10.
" " "	1,100	" " "	100	"	1/11.
" " "	1,500	" " "	125	"	1/12.

Based upon this table the "ability" taxpayers are divided into three groups as follows :

- A. Ordinary occupiers of dwellings,
- B. Boarders or lodgers,
- C. Farmers and business men.

The incomes having been ascertained by reference to rentals as above explained, and an abatement or exemption of £30 having been allowed in each case, a low progressive rate is levied on all incomes over £60, the rate varying from 1d. on £60 to 6d. (2.5%) on all over £400. Incomes, in classes A and B under £60, pay a fixed sum of two and one-half pounds, while in class C incomes of less than £50 pay the same amount.

It was estimated in 1905, that the number of "bread-winners" in the state was 76,800 and that 47,423, or 61.76%, would be subject to the ability tax. The estimated amount of the tax was £35,143 (\$171,000), and the actual yield £33,517.

Many advantages are claimed for this form of tax as will be seen by the following extracts from an official report:

It is unlike the income tax in its entire freedom from doubt as to the amount of the tax which, according to relative financial ability, should be levied upon each adult breadwinner, and particularly so in its almost entire freedom from the inquisitorial features of prying into the private business affairs of the taxpayer as regards the nature and source of his income or lack of income.

It prevents dishonest taxpayers from presenting fraudulent statements with the view of evading their fair share of the tax, thereby involving the honest taxpayers in a heavier tax rate, in order to make good such dishonest leakages of revenue.

It is estimated that by this non-inquisitorial method of assessing the financial ability of the taxpayer, a truer approximation to the ideal of taxation, in proportion to the revenue of rich and poor respectively, will be attained than by any form of inquisitorial income tax that has yet been devised.

Above all, it does not aim at reaching the full normal limit of the actual yearly income of the taxpayer, but is designed rather to fall short of it by means of a uniform abatement, and it is simple and inexpensive in collection.¹⁰

In the year 1907-8 the combined yield of the income tax proper and the non-inquisitorial tax was £101,433 (\$493,563) which was 3.06 per cent of the state taxes.

Victoria. The income tax law of Victoria is not complicated with the land tax as in the other colonies, and it possesses some peculiar features which it may be worth while to consider more in detail.

¹⁰ Graduated Income Tax (Colonies). Return to an address of the Honorable the House of Commons, showing which of the Colonies have established systems of graduated income tax, etc. Colonial Office, June, 1905. No. 196. In this publication 71 quarto pages are given to Tasmania.

As in the case of the English income tax law of 1842, the tax was first levied in 1895, for a period of three years, to meet a temporary deficiency; but at the end of that time was continued as a permanent fiscal measure. All incomes are divided into two classes, those from personal exertion and those from property. The rates are fixed for each year by an "Income Tax Rate Act," and for the year 1909 they were as follows:

- a. For *natural persons*,
 1. Income from personal exertion

up to £500 (\$2,433.25)	3 d. on the £ =	1.25%
Over £500 up to £1,000 (\$4,866.50) ..	4 d. " " " =	1.66%
" £1,000 up to £1,500 (\$7,299.75) .	5 d. " " " =	2.08%
" £1,500	6 d. " " " =	2.50%
 2. Income from property double the above rates.
- b. For *companies* (except life insurance) .7 d. on the £ = 2.91%
 Life insurance companies.....8 d. on the £ = 3.33%

Incomes of ship-owners from shipments out of Victoria are taxed 5 per cent. In 1909 a rebate of 20 per cent was allowed to persons, but not to companies.

An exemption of £150 (\$729.97) is allowed to persons whose incomes are between £200 and £500. Incomes of less than £200 (\$973.30) are not assessed. The above exemptions do not apply to incomes above £500, nor to companies.

Probate and succession duties are levied according to a graduated scale ranging from 1½ per cent to 10 per cent and recipients of legacies and bequests are not required to include them in their returns of income.¹¹

¹¹. Graduated Income Tax (Colonies) *op. cit.* (see note 10).

The deductions allowed from income are quite liberal and are as follows: "Interest paid on mortgage of property, repairs to property or plant, but not including cost of additions or improvements, taxes, fire insurance, fidelity guaranty, etc., premiums not exceeding £50, gifts exceeding £20 each to public or charitable institutions, calls or contributions paid into companies in liquidation or mining companies carrying on operations in Victoria, rent of business premises and salaries to employees, bad debts, depreciation and wear and tear of machinery, implements, etc., used for the purpose of trade, cost of sustenance of employees, when supplied in addition to wages or salary of such employees, and losses incurred in the production of income." No deduction is allowed for the cost of maintenance of the family of a taxpayer.

As to the *administration* of the tax there are the usual requirements of a declaration of income on the part of each taxpayer, which may be sent to the Commissioner of Taxes through the mails free of postage. There is no collection at the source except in so far as the companies pay income taxes which would otherwise be payable by the stockholders individually; but the income tax office has a system of checking returns by means of information carefully secured and tabulated in reference to interest, rents, salaries, etc., which is a material aid in preventing fraud.

The *financial results* may be seen by the following table of income taxes collected for a period of five years (pounds and shillings reduced to American currency):¹²

¹². See Consular Report in Congressional Record, Vol. 45, p. 1110.

Year	Tax on Income from personal exertion.	Tax on Income from Property	Total Tax	Average per Taxpayer
1904	\$ 971,927	\$549,573	\$1,521,500	\$31.60
1905	1,122,881	437,449	1,560,330	34.70
1906	1,106,106	444,466	1,550,773	33.99
1907	1,256,107	458,127	1,714,234	49.77
1908	1,100,466	360,589	1,461,055	42.07

The average number of income taxpayers for the same period was 45,548 or 3.6 per cent of the population of 1907. That the number is not larger is no doubt due to the comparatively large exemption, and the fact that 23 per cent of the tax was paid by companies. If the revenues of the state from railroads, street cars, waterworks and other public utilities owned by the state are deducted, it will be found that the income tax contributed about one-eighth of the total revenue,¹³ and 32.3 per cent of the amount raised by taxation.

The cost of collection for the year ending June 30, 1908, was \$67,545.65, or a little over 4 per cent. This is somewhat higher than usual, but it has been found that money expended in securing a more thorough administration of the tax was many times repaid by the increase in the amount of tax collected.

The distinction between income from personal exertion and that from property is not always easy. For example, many of the farmers own the land which they cultivate, so that their income is the joint product of labor and property, and in such cases the line is not easily drawn. In the practical administration of the law this difficulty is met by assuming that a

¹³. Report from the Select Committee on the Income Tax with the proceedings of the Committee (England), 1906. No. 365, p. 90. See also Official Yearbook of the Commonwealth of Australia, No. 2, 1909, pp. 822 and 837.

reasonable interest on the estimated value of the land is the amount of income from property and that the remainder may be fairly ascribed to personal exertion.

Western Australia. On the 20th of December, 1907, the first income tax law in Western Australia was passed under the title of the Land and Income Tax Assessment Act and, on the same day, the so-called Land Tax and Income Tax Act was passed, declaring rates for the year ending June 3, 1908. Under the first named Act taxes in excess of one pound were payable in two equal half-yearly instalments. Under the second Act only half the tax levied for 1907-8 was required to be collected. The result was that the two laws became effectual on January 1, 1908. The rate is proportional at 4 d. in the pound ($1\frac{2}{3}\%$) on all incomes in excess of £200. There is a supplementary tax of fifty per cent of the general income tax on the income of any person who has not been a resident of the Commonwealth during any part of the year preceding the year of assessment unless he has been absent on public services.

The exemptions comprise:

- a. Incomes not exceeding £200 per annum.
- b. Revenues of municipal corporations, etc.
- c. The incomes of life insurance companies and companies not engaged in business for profit.
- d. Dividends of companies subject to duty under the Dividend Duties Act and of the Government Savings Bank and the Agricultural Bank.
- e. Income of the Governor of the State and all religious, charitable and educational institutions.

f. Incomes from government debentures.

g. Income derived from land on which land tax is payable.

Among the deductions and abatements are costs of repairs and expenses of producing income; life insurance to the amount of £50; the amount paid to a taxpayer's sons and daughters over the age of sixteen years who are employed in the taxpayer's business; and a sum representing £10 for each child under the age of sixteen residing with, and dependent upon the taxpayer.

In addition to the income tax there is a Dividend Duties Act, which was passed December 20, 1902, and amended in 1906. This act requires that within seven days after the declaration of a dividend by a company, such company shall pay the Colonial Treasurer a duty equal to one shilling for every pound (5%) of the amount of such dividend. Insurance companies, other than life insurance companies, are required to pay one per cent of their premiums, and shipping companies pay five per cent on all inward and outward traffic, including passenger fares and five per cent of the profits on sales of coal or other goods. It should perhaps be mentioned that Western Australia has a tax on the "unimproved value" of land. The rate is one penny in the pound, or four-tenths of one per cent.

The amount of income tax proper in 1907-8 was £5,933, while the dividend tax amounted to £108,034, making a total of £113,967 (\$554,563). This amount constituted 41 per cent of the whole revenue from taxation for the same year, but only a small portion of the income tax was collected, as the Act did not take effect till January 1, 1908.

CHAPTER III.

AUSTRIA, BELGIUM, BRITISH COLUMBIA, CANADA, CAPE OF GOOD HOPE, DENMARK.

AUSTRIA.

The beginning of income taxation in Austria may be found as far back as 1702, when a law was passed requiring a declaration on the part of the taxpayer, providing for collection at source and for the exemption of property and income below a certain amount. From 1799 to 1829, personal property was reached by class taxes (*Klassensteuern*) which were graduated at first according to the occupation or social standing of the individual and afterwards in proportion to wealth. These taxes were levied upon a progressive scale in accordance with which persons having from 100 florins (\$50) to 150,000 florins (\$75,000) were taxed at rates which increased gradually from two per cent to twenty per cent. An ordinance of October 5, 1829, abolished this progressive feature however and other levies, more in the nature of a general property tax, were substituted.

In 1848, as a result of the political disturbances and financial depression, many reforms were at-

tempted, not the least important of which was a law passed October 29, 1849, which provided for a general income tax. Like the English income tax law of 1842, it was originally designed as a temporary expedient to meet the extraordinary needs of the State. Although the preamble of the law contained a recital to the effect that it should apply to the year 1850 only, as a matter of fact it remained in force for nearly half a century and forms the basis of the present law, which was passed in 1896, and went into effect January 1, 1898. During this long period the law of 1849 experienced many changes and eventually became so involved and complicated that—as one writer expresses it—“it was full of contradictions and make-shifts.”

As a fiscal measure it fell far short of expectations and it was always looked upon with great disfavor by the tax-paying public. The causes of its unpopularity are not far to seek. Instead of being introduced at a low rate and as a substitute for some undesirable and unpopular tax, it was imposed in the first instance at excessively high rates and without any promise of reduction in other taxes. It is therefore not surprising that a great number of the taxpayers looked upon the tax as an oppressive and unreasonable burden which they were justified in evading so far as possible. There grew out of this state of affairs a continuous struggle between those upon whom the tax bore most heavily and the officials who were attempting to enforce the tax. The conflict might have led to serious consequences had the contending parties not finally reached a tacit understanding that a certain moderate amount

of deceit and undervaluation would be tolerated. But, as the amounts of certain classes of income, such as salaries, pensions and dividends, which were easily collectable at source, were well known, evasion in such cases was impossible and the burden of the tax was therefore very unequally distributed. The citizens who were taxed upon the full amount of their incomes, were placed at a great disadvantage as compared with others who found means to escape the tax. These unfortunate conditions have operated to render the administration of the new law of 1896 more difficult than it otherwise would have been. The Minister of Finance has found it necessary to make a strong effort to develop the tax-conscience (*Steuermoral*) of the people, and the more liberal provisions of the new law have tended to make that effort successful.

Without going into full details the following brief statement of a few of the chief features of the present law may be of interest:

Definition of income. Taxable income is defined as the sum of all receipts in money, or objects having money value, accruing to the taxpayer. This includes the rent of a house occupied by the owner, or of a house for which he does not pay rent; it includes also the value of one's own produce which is consumed by the members of the household, first deducting all expenses incurred in getting, maintaining and preserving¹ the said produce and all interest paid on indebted-

¹. In the form for the declaration the idea conveyed is somewhat broader, a deduction being permitted of all sums expended for the "production, protection and conservation of the income." These rather indefinite terms have opened the doors for much fraud and evasion, and Victor Marcé, in his monograph upon *L' Impôt sur le*

ness. Receipts from legacies, insurance and gifts are not treated as income, but as additions to capital. There may be deducted from income, moneys paid for insurance (but only to a limited extent) and no allowance can be made for expenses which tend to increase one's capital, or for loss of capital.

Rates of taxation. Incomes of less than 1,200 crowns (Kronen)² are exempt. For the first class in the scale, comprising incomes of from 1,200 to 1,250 crowns inclusive, the tax amounts to 7 crowns 20 heller; and as the incomes increase, the rate is gradually raised until, for incomes of from 92,000 to 96,000 crowns, it reaches 3,720 crowns. From 96,000 to 200,000 crowns there is an increase in rate of 200 crowns for every 4,000 crowns of income. From 200,000 to 210,000 crowns the tax is 9,300 crowns; and from 210,000 crowns upwards the rate of tax increases 500 crowns for each 10,000 crowns of income.³

Revenu en Autriche, has characterized them as "formule vague, élastique, qui prête ou à l'arbitraire de la part du fisc ou à la fraude de la part du contribuable, ou si l'un et l'autre sont pleins de bonne volonté, s'ils veulent faire ou contrôler une déclaration en pleine conscience, le fisc et la contribuable doivent être dans l'embarras le plus grand pour résoudre en chiffres un problème aussi délicat."

². An Austrian krone is practically one-half of a gulden or 20.3 cents. The krone is the equivalent in value of 100 heller and the heller is therefore worth about 1/5 of a cent. Some of the older statistics are given in florins. The value of the Austrian florin (gold) was 48.2 cents, but it has not been coined since 1892. The silver florin is of the same value as the gulden and is equivalent to two crowns or about 40.6 cents. The value of the gold florin was 48.2 cents, but it has not been coined since 1892. It should be remembered that the values of foreign coins as expressed in American money are not stable, but they are subject to slight fluctuations. The values adopted in this book are those fixed by the Treasury Department of the United States, as given in Vandergriff's U. S. Tariff for 1909, pp. 26-27.

³. The total scale, up to 96,000 crowns, comprises 65 grades and is given in full in Appendix D.

An analysis of these rates will show that they are asymptotic, that is, continually approaching, but never quite reaching, the five per cent limit. Reduced to percentages we find that

1,200 crowns	(\$ 240)	would pay a tax of	0.6 per cent.
2,000 "	(400)	" " " " "	1. " "
6,000 "	(1,200)	" " " " "	2. " "
20,000 "	(4,000)	" " " " "	3. " "
60,000 "	(12,000)	" " " " "	3.5 " "
96,000 "	(19,200)	" " " " "	4. " "

From this point the rate increases more slowly, never quite reaching five per cent.

Abatements. Heads of families, whose incomes do not exceed 4,000 crowns, are entitled to a reduction of one-twentieth of their income for each member of the family above two (wife not counted) who is entirely dependent upon them for support. The effect of such abatement in any case, whether much or little, is to put the taxpayer at least one grade lower in respect of income. There is a further provision that taxpayers, with incomes of less than 10,000 crowns, who suffer serious losses by sickness, accident or misfortune, may have their taxable income lowered to an amount not to exceed three grades or classes. But these abatements are somewhat counter-balanced by the fact that the family and not the individual is the real fiscal unit. The result is, that while no member of the family may have an income equal to the exemption, the combined incomes may be sufficient to incur a considerable tax.

Administration. For every political district and city of over 10,000 inhabitants an assessment commission is provided whose duty it is to determine the amount of income of each "*Personaleinkommensteuerepflichtigen*" (individual-liable-to-income-tax). The num-

ber of members of the commission is determined by the Minister of Finance who names the chairman and one-half of the members. The other half of the members are elected by the taxpayers.

There is a *Berufungskommission*, or Appeal Board, to which both the Assessment Board and the person assessed may appeal. In case of dissatisfaction with the decision of the Appeal Board, a second appeal may be had to the courts. Agreements that the income tax shall be paid by any other person than the one properly liable therefor are not legally enforceable. False statements made in the declarations, or orally, by means of which reductions in the tax are obtained, are punished by a fine of from three to nine times the amount by which the tax was thus improperly reduced. There is also a penalty, which may amount to a fine of 2,000 crowns, or three months imprisonment, upon the officials concerned with the assessment and collection of the tax, for improperly divulging the information which they obtain as to income.⁴ The tax is payable in two instalments, one on June first and one on December first.

The taxpayer is required to give a detailed list of his receipts from all sources and if, after official notification, he still fails to make the proper declaration, he is subject to a fine of 200 crowns. In default of a declaration, the officials are authorized to resort to other sources of information and make an estimate

⁴. Reisch. Das Gesetz vom 25ten Oktober R. G. B. 1. Betreffend die direkten Personalsteuern, 1905. See also R. Sieghart, The Reform of Direct Taxation in Austria, *Economic Journal*, VIII (1898) p. 173.

based largely upon *les signes extérieurs*. Of these exterior signs the rent paid by the taxpayer for his habitation is considered most significant and it is customary to estimate the income at a sum equal to five times the amount of such rent. The officials do not have the right to examine the taxpayer's books of account, but any citizen may produce his books before the Commissioners in support of the facts stated in his declaration.

*Supplementary tax on salaries.*⁵ In addition to the general income tax, all persons who receive from the State, or corporations, or individuals, an annual salary or allowance amounting to 6,400 crowns or more, are subject to a supplementary tax. The scale of rates is progressive, rising from fourth-tenths of one per cent on incomes from 6,400 to 8,000 crowns to six per cent on incomes of 30,000 crowns or more. The person or corporation who pays the salary is required to retain the tax for each month and turn it over to the Government within fourteen days from the last day of the month.

The relative importance of the Austrian income tax as a fiscal measure is shown by the budget of 1908, in which the total receipts of the Kingdom are estimated at 2,149,000,000 crowns, or \$529,800,000. Of this sum 323,500,000 crowns (\$64,700,000) were

⁵. "*Besoldungsteuer von hoeheren Dienstbezuegen.*" In 1899 this tax was paid by 8,700 persons, of whom 3,800 were in the class having salaries of 6,400 to 8,000 crowns; 1,295 in the class having salaries between 8,000 and 9,000 crowns; 813 in the class 9,000-10,000 crowns; 1,038 in the class 10,000-12,000 crowns and from this point the number steadily diminished until for the highest class, having salaries over 30,000 crowns there were only 125 taxpayers. *Régime Fiscal des Valeurs Mobilières en Europe* (Jobit) 2 Vols. Published by French Ministry of Finance 1901, Vol. 1, p. 156.

levied as "direct taxes" including 60,900,000 crowns (\$12,180,000) for the income tax.⁶ It thus appears that the income tax contributed only about 2.8 per cent of the total revenue and 18.8 per cent of the direct taxes.

It must be admitted, however, that in spite of the unpopularity of the law, the amount collected by income taxation in Austria has been increasing at a more rapid ratio than the tax-paying population. The amount of taxable income increased 25 per cent in the years 1898 to 1903, and 19 per cent from 1903 to 1907. The total increase in amount of income for the ten years 1898 to 1907 inclusive was 49 per cent, while the increase in the number of taxpayers for the same period was 36 per cent.

The amount of the yield of the income tax was,⁷

for 1904,	57,298,194 Cr.	(\$11,459,639)
" 1905,	58,469,660 "	(\$11,693,932)
" 1906,	63,496,685 "	(\$12,699,337)
" 1907,	65,346,945 "	(\$13,069,389)

In 1907 the total income returned was 3,927,631,-661 crowns, which was reduced by various exemptions and abatements to 3,434,355,573 crowns (\$686,-871.115). The number of income taxpayers was 1,048,689, or 3.78 per cent of the population. If the families of these taxpayers were included, the number would be 3,179,435 or 11.47 per cent of the population. It would therefore appear that the average income of each taxpayer was 3,275 crowns, or \$655.

⁶. Handwoerterbuch der Staatswissenschaften, 3d Ed. 1909, Vol. III, p. 730.

⁷. Mittheilung des K. K. Finanz-Ministeriums, 1908. Vol. 14, p. 1081. This book contains a great amount of detailed statistics regarding the Austrian income tax, but is not well arranged, nor are the statistics sufficiently summarized.

The average amount of income tax paid by each taxpayer was 62.31 crowns (\$12.46) or an average of 2.36 crowns (47c) for each person in the Kingdom. The average percentage of the whole income tax to total amount of income returned was 1.90 per cent.⁸

A classification of the tax in 1907, according to amount of income returned, shows that the number whose income was

less than 1,800 crowns	(\$ 360)	was	496,949	or	47.39%
between 1,800 and 3,600 Cr.	(720)	"	362,028	"	34.52%
" 3,600 " 7,200 "	(1,440)	"	130,707	"	12.46%
" 7,200 " 12,000 "	(2,400)	"	33,478	"	3.20%
" 12,000 " 40,000 "	(8,000)	"	21,294	"	2.03%
" 40,000 " 200,000 "	(40,000)	"	3,874	"	.37%
over 200,000			359	"	.03%
Total			1,048,689	100.	%

The taxpayers having incomes from 40,000 to 200,000 crowns, although constituting a trifle over a third of one per cent of the whole number, paid nearly 17 per cent of the whole tax; while the highest class, which constituted only three one-hundredths of one per cent, paid 13.36 per cent of the whole tax. In 1905, according to M. Berthélemy, 81.76 per cent of the income taxpayers paid only 23 per cent of the total tax, while 5½ per cent of them paid 60 per cent of the tax. The 5½ per cent who paid 60 per cent of the tax constituted only two-tenths of one per cent of the whole population of the country.⁹

There is some divergence of opinion among eminent authorities as to whether or not the Austrian income tax can be considered a success. Among the

⁸. Die Ergebnisse der Einkommensteuerstatistik in Oesterreich, by Dr. Friederich Leiter, 1907, p. 39.

⁹. Berthélemy. Bulletin de la Société de Législation comparée. March, 1907, p. 129.

higher officials of the government the opinion seems to prevail that the law is fairly satisfactory. Baron von Stoerck, President of the General Association of Agricultural Societies in Austria, has said:

In regard to the personal income tax I wish to say that it gives general satisfaction. Complaints regarding evasion of the tax are not frequent. The administration of the law does not meet with any particular difficulty and the people have become reconciled to it.

Dr. Friederich von Wieser, a professor in the German University at Prague, who has made a careful study of the Austrian systems of taxing incomes, is not so optimistic. He says:

The principal difficulties are such that the best of administrations cannot surmount them at the first attempt. They consist in the passive opposition of the poorer classes; the shrewd and effective opposition of the wealthier taxpayers, whose widely extended financial activities favor concealment; the great difficulty of valuing the income of the farmer; and lastly, the practical invisibility of certain forms of personal income.¹⁰

In any case it must be conceded that the income tax has not met with so great a measure of success in Austria as in Prussia and some other neighboring states and this is no doubt due both to inherent defects in the law itself and to the peculiar conditions under which it is administered.

BELGIUM.

It is often said that Belgium is one of the few European countries which does not have an income tax. This statement is true so far as the general

¹⁰. Dr. Friederich Freiherr von Wieser. *Die Ergebnisse und die Ansichten der Personaleinkommensteuer in Oesterreich*, 1901.

Government is concerned, but in the Province of Brabant, there are 77 Communes out of a total of 344, which levy local taxes based upon income. The method followed in all but one of the Communes may be briefly outlined as follows:

The Communal Council is required to ascertain "*le revenu présumé*"—the probable or presumable income—of each person in the commune (except working men who are exempt from the tax). In order to accomplish this, the council is expected to estimate the personal income of the individual as it is indicated by his salary, business, profits, character of his residence, value of his furniture, manner of living, etc. Upon the basis of the information obtained by the Council a *rôle de cotizations*, or assessment roll, is prepared which is open to inspection by the taxpayers, for at least fifteen days. The Council act as a sort of board of review, and make a report of their proceedings to the *Deputation permanente* which also reviews the assessment and, if it is found correct, makes an order rendering it executory. To ascertain the rate, the amount of tax to be raised is divided by the total taxable income. Thus, if 2,000 francs were the amount of tax and the total income assessed were 400,000 francs the rate would be one-half of one per cent.

This communal tax is not designed to produce any large amount of revenue; but is looked upon as sort of a convenient "stop-gap" to meet any deficiency which may remain in the communal budget after all the usual sources of revenue have been utilized.

In the Commune of Ixelles there is a graduated tax based upon income, but the method of ascertaining the approximate income is quite novel. The amount of income is not determined by exterior signs, as in the other communes; but is based upon the amount of personal property tax paid to the general government. If the amount thus paid is less than 400 francs (\$77.20) it is multiplied by 60; if between 400 and 800 francs (\$154.40), by 55; if between 800 and 1,200 francs (\$231.60), by 50 and if above 1,200 francs, by 45. The product in each case is "*le revenu présumé*," or assumed income. The object of the regressive method of determining income is not quite apparent; but the result of such a method is partly counter-balanced by the accompanying exemption and the abatements. The first 1,000 francs (\$193) of income is exempt, and there is a uniform rate of one per cent.

The second	1,000	fr.	is	taxed	upon	only	2/10	or	200	fr.
" third	1,000	"	"	"	"	"	3/10	"	300	"
" fourth	1,000	"	"	"	"	"	4/10	"	400	"
" fifth	1,000	"	"	"	"	"	5/10	"	500	"
" sixth	1,000	"	"	"	"	"	6/10	"	600	"
" seventh	1,000	"	"	"	"	"	7/10	"	700	"
" eighth	1,000	"	"	"	"	"	8/10	"	800	"
" ninth	1,000	"	"	"	"	"	9/10	"	900	"
" tenth	1,000	"	and all above are taxed at the full rate.							

The amounts of the assessments thus obtained are not published.¹¹

¹¹. I am indebted to the Honorable Henry M. Wilson, United States Ambassador to Belgium, for the information in regard to local income taxes in Belgium, which was received in the form of a communication from the Governor of the Province of Brabant.

BRITISH COLUMBIA.

Of the ten subjects of taxation which are mentioned in the Assessment Act the sixth is income. The first \$1,000 is exempt and the rates are as follows:

Class A.	Up to	\$2,000	1½%
" B.	\$2,000 to	\$3,000	1¾%
" C.	\$3,000 "	\$4,000	2%
" D.	\$4,000 "	\$7,000	3%
" E.	In excess of	\$7,000	4%

The tax is due January second in each year, and a discount of ten per cent is allowed if the taxes are paid on or before June 30th.

The Act of 1903 was considered objectionable in that it taxed both personal property and the income derived from it. The method of meeting this objection was somewhat original and is shown by the following quotation from the amending act passed in 1907:

When any person is assessed and taxed on personal property from which his income is derived, the amount of the tax on such personal property, if greater than the amount of the tax on his income, shall be the only tax payable in respect of both income and personal property; if the tax on income is greater in amount than the amount of the tax on personal property, the amount of tax on income shall be the only tax payable in respect of both income and personal property, and in the event of the amount of the tax on personal property and the amount of the tax on income being equal, the tax on income shall be the only tax payable in respect of both income and personal property.¹²

This provision is explained by the Provincial Surveyor of Taxes as follows:

The assessor has the right to collect the tax which yields the greater revenue; that is, he chooses between what the

¹². 3 & 4 Edw. VII., c. 53, 5.

tax is on personal property (which is revenue producing) and the tax on the income produced therefrom. Where income is derived from other sources than personal property, such income is taxable, in addition to the tax on personal property from which no income is derived.

The place which the income tax fills in the general scheme of taxation may be seen from the following table in which, for the sake of brevity, the corporate and individual incomes have been combined and the percentage in each case of the total tax has been computed:

Year	Am't of Income Assessed	Am't of Tax on Income	Total Taxes	Percentage of Income Tax to total Tax.
1900	\$ 1,821,165	\$ 20,643	\$291,410.77	7.08
1901	2,508,462	40,393	324,400.36	12.45
1902	2,393,377	37,879	335,167.75	11.27
1903	2,561,123	40,130	343,646.85	11.67
1904	5,904,507	93,241	757,496.39	12.30
1905	5,557,183	74,728	748,337.68	9.98
1906	7,136,817	98,733	714,486.13	13.81
1907	8,461,566	124,298	659,514.95	18.84
1908	10,257,712	163,412	856,373.33	19.08

The white population of British Columbia is estimated at 260,000 and in view of the fact that it is scattered over a great area, the comparative success of the income tax is remarkable. Mr. John B. McKilligan, the Provincial Surveyor of Taxes, testifies that the tax is productive of good results and gives general satisfaction.¹³

CANADA.

The government of Canada, as such, does not have an income tax law, but the province of Ontario has a

¹³. McKilligan, Taxation in British Columbia, in State and Local Taxation, 2nd International Conference, Addresses and Proceedings (1909), p. 327.

partial income tax law under which income is taxed at the same rate and to some extent in the same manner as other property. There is no graduation in the tax, except as the exemptions at the foot of the scale tend to give it a progressive character. The exemptions consist of one thousand dollars deduction from personal earnings or from any pension, credit or retiring allowance in respect of personal services, while the person in question is a resident and householder in a city or town. If the person is a resident and householder in a municipality other than that which levies the tax, the exemption is \$700, and if the person is a resident, but not a householder in the city or town, the exemption is \$600.

The income of householders derived from investments is exempt if it does not exceed \$300. Income from real estate (except interest on mortgages) is wholly exempt as it is supposed to be reached by the real estate and business tax.¹⁴

The amount of taxable income and the rates for 1907 were:

Rural	\$ 2,832,831	Average rate....	1.15%
Urban	4,644,311	“ “	2.36%
City	14,039,181	“ “	2.26%
<hr/> Total		\$21,516,323	

Applying the above rates to the taxable income it would appear that the amount of tax collected on incomes was \$459,168.78 or 2.35 per cent of the total amount raised by taxation.

¹⁴. See Consular Report in Congressional Record, Vol. 45 (Jan. 27, 1910), p. 1115.

In the province of Alberta there are a few towns and cities which levy income taxes. The city of Edmonton levies a tax on all personal income in excess of one thousand dollars. The rate is that of the general property tax for each year and the amount collected is very small, being less than one per cent of the total taxes.

CAPE OF GOOD HOPE.

The income tax in this Colony dates from the "Additional Taxation Act" of 1904—a law which seems to have been drawn with unusual care in so far as administration is concerned, but which provides an extremely high exemption and a clumsy method of gradation. The provision of the law as to rates is as follows:

§ 50. From and after the 1st of July, 1904, subject to the provisions of this Act and the regulations hereunder, there shall be charged, levied, collected and paid to the revenue of the Colony for the service of the financial year ending the 30th of June, 1905, an income tax in respect of the annual amount of all taxable incomes arising or accruing during the twelve months ended the 30th June, 1904, exceeding one thousand pounds per annum at the rate of sixpence in the pound upon all incomes exceeding one thousand pounds and not exceeding two thousand pounds, and in addition thereto ninepence in the pound on so much as exceeds two thousand pounds up to five thousand pounds, and in addition thereto one shilling in the pound on so much of all incomes as exceed five thousand pounds.

This section has been construed to levy the following rates:

Incomes not exceeding £1,000 exempt	} 6 d. in the pound on excess, or .....2.50%
Incomes exceeding £1,000 (\$4,866.50) but not exceeding £2,000 (\$9,733)	
Incomes exceeding £2,000, but not exceeding £5,000 (\$24,332.50)	} The 1st £1,000 is not taxed. The 2nd £1,000 is taxed. 6d. in the pound, or.....2.50% and the remainder 9 d. in the pound, or.....3.75%
Incomes exceeding £5,000	
	} 1st £1,000 exempt. 2nd £1,000 tax of 6 d. or..2.50% Next £3,000 tax of 9 d. or.....3.75% Remainder above £5,000 is taxed 1s. in the pound or .....5%

The exemption of £1,000 does not apply to limited liability companies or to shareholders in such companies in respect of their income.

Every company is required to have a "public officer" who is appointed by the board of directors and whose duty it is to pay the income tax and to represent the company in all matters relating to income tax.

The provisions of the law as to "representative taxpayers" are so well designed to accomplish the end sought that it has seemed worth while to quote them in full:

§ 53. Subject to the provisions of this Act, income tax shall be payable:

(1) In respect of the income of a company, by the public officer thereof.

(2) In respect of the income of every person permanently or temporarily absent from or resident out of the Colony, by the attorney or agent of such person, and for the purpose of this Act every person in the Colony having the receipt, management or control of income on behalf of any such person shall be deemed to be the agent of such person.

The commissioner may, if he thinks necessary, declare any person to be the agent of any other person, and the

person so declared an agent shall be the agent for the purposes of this Act.

(3) In respect of income the subject of any trust or of infants, lunatics and persons under any legal disability by the trustee, guardian, curator or other person entitled for the time being to the receipt, management, disposal or control of such income or remitting or paying the same.

(4) In respect of income paid under the decree or order of any court or judge to any receiver or other person, by such receiver or person, and independently of the title to such income or any contingency or uncertainty in respect of such title.

(5) In respect of every other income, and in all other cases, by the person to whom the income arises or accrues or who is legally or equitably entitled to the receipt thereof.

And the person by whom income tax is payable under subsections one to four of this section inclusive shall be deemed to be "representative taxpayers" within the meaning of this Act. Nothing shall be taken to relieve the person receiving the income from the representative taxpayer from any tax due or payable in respect thereof.

§ 54. Every representative taxpayer, as regards the income to which he is entitled in his representative capacity, or of which in such capacity he has the management, receipt, disposal, remittance, payment or control, shall be chargeable with the same income tax, and be subject in all respects to the same liabilities as if the same were income arising or accruing to him beneficially, except that no such taxpayer (not being a public officer of a company) shall be personally liable for the payment of income tax beyond the amount or value of the income of which he has, in such capacity, as aforesaid, the management, receipt, disposal, or control: Provided that nothing herein contained shall, in cases where the representative taxpayer acts as agent or trustee, for several persons, prevent such representative taxpayer from claiming that each agency or trust shall be treated separately for the purpose of claiming the exemption, or deduction provided for in section fifty-one.

§ 55. Every representative taxpayer who, as such, pays any tax, shall be entitled to recover from the person on whose behalf such tax shall be paid, or to retain out of any moneys that may come to him in his representative capacity, so much as shall be required to indemnify him in respect of such payments.

The collections from the tax for the first year were estimated at £280,000 to £290,000 (\$1,411,140) and the number of taxpayers at 8,000 or three-tenths of one per cent of the total population (\$2,433,000).¹⁵ The amount collected in 1904-5 was £292,254; in 1905-6, £252,940 and in 1906-7, £263,918 (\$1,184,225). The total revenue for 1906-7 was £7,701,192, of which sum the income tax contributed 3.42 per cent.¹⁶

DENMARK.

The law now in force which was passed May 15, 1903, and went into effect April 1, 1904,¹⁷ combines an income and property tax. The tax upon property is six-tenths of one per cent, while the rates upon income are shown in the following table:

Income		Rate
Under 2,000 Kroner,	(\$ 536).....	1.3%
2,000 Kr. to 3,000 Kr.	(\$ 804).....	1.4%
3,000 " " 4,000 "	(\$ 1,072).....	1.5%
4,000 " " 6,000 "	(\$ 1,608).....	1.6%
6,000 " " 8,000 "	(\$ 2,144).....	1.7%
8,000 " " 10,000 "	(\$ 2,680).....	1.8%
10,000 " " 15,000 "	(\$ 4,020).....	1.9%
15,000 " " 20,000 "	(\$ 5,360).....	2. %
20,000 " " 30,000 "	(\$ 8,040).....	2.1%
30,000 " " 40,000 "	(\$10,720).....	2.2%
40,000 " " 50,000 "	(\$13,400).....	2.3%
50,000 " " 100,000 "	(\$26,800).....	2.4%
100,000 " or over	.....	2.5%

The law as to exemptions is peculiar in that it recognizes the fact that the minimum of existence should be placed higher for persons residing in large

¹⁵. Graduated Income Tax, etc., *op cit.* (See Ch. II, Note 10 ante) p. 29.

¹⁶. Annual Cape of Good Hope Statistical Register, 1908.

¹⁷. Lov om Indkomst- og Formueskat til Staten. V. Pios Boghandel. Copenhagen, 1910.

cities. The principle is carried still farther by grading the exemptions made for children or dependents. Section 8 of the law reads (when translated), as follows:

From every income there shall be exempted as free from taxation:

In Copenhagen and Fredericksberg, 800 Kr. (\$214); in market towns (including Marstal and Fredericksvaerk), 700 Kr. (\$187.60); and in rural districts, 600 Kr. (\$160.80); for every child which was under 15 years at the beginning of the calendar year for which the tax was levied and is not liable to taxation under the provisions of Section 7, an additional exemption of 100 Kr. (\$26.80) in Copenhagen and Fredericksberg; 85 Kr. (\$22.78) in market towns * * * and 70 Kr. (\$18.76) in rural districts.

The Section 7 above mentioned provides that the head of the family shall be taxed for the combined income of the members of the household. The wife, if living with her husband, is reckoned as a part of the household, even though she have an independent income, as are also dependent children who are not themselves householders. If the wife have separate property or income she may be required to pay her proportion. If the wife is living permanently apart from her husband she may be taxed independently for all of her income except that portion which she receives from her husband in the form of alimony or otherwise.

The exemptions above mentioned do not apply to non-resident persons or corporations, and their tax is fixed at two per cent. In computing the tax the whole amount of income, less the deductions, is divided by fifty and the remainder ignored. Another curious provision, the reason for which is not apparent, is to the effect that the rate shall be deter-

mined upon the basis of the total income before any deductions are made.

The provisions for the administration of the "income and property tax" are very complete and specific. They comprise 20 pages of the pamphlet edition of the *Lov om Indkomst- og Formueskat til Staten* (Law concerning State Income and Property Tax) and bear some resemblance to the system in Germany. The country is apportioned into taxing districts and for each district a *Skatteraad* (assessment or taxation board) is appointed by the Minister of Finance, who also names the chairman. These officials hold office for six years, one-half retiring every three years. They are paid small salaries in addition to their traveling expenses. Service upon these boards is obligatory except in the case of clergymen, persons over sixty years of age and those who have already served. There is also a General Superior Taxation Board (*Overskatteraad*) which consists of the *Amtmand* (High Sheriff or Magistrate) of each county as chairman, two members appointed by the Minister of Finance and two members nominated by the County Board from among its members.

On or before February first of each year, public notice is given that all persons must give statements of their income and property and blank forms for statements are distributed. The process of assessment must be completed by March 31, and complaints may be filed during the first half of April. These complaints are heard and passed upon in the latter half of the month. Any person who neglects to make the required statement forfeits his claim to protest against the assessment unless he can prove that he has been assessed for an amount exceeding his true

income by more than 25 per cent. For example, if the excess were 20 per cent this would not constitute any ground for relief. If, however, the taxpayer can show that the assessment exceeds his true income by more than 25 per cent he will be allowed to pay upon the lower amount plus a 15 per cent penalty for not having made a declaration. Any person guilty of false statements or returns as to his income is liable to a fine not exceeding ten times the amount of the tax thereby evaded. The taxation boards and officials are bound to inviolable secrecy as to the information they obtain regarding incomes.

The collectors of the tax are distinct officials, unconnected with the assessment boards and they receive $1\frac{1}{2}$ per cent of the amount which they collect.

The results of the collections for the year ending March 31, 1904, which was the first year the tax was in operation, were:

Collected from Income Tax	5,915,266.57	Kr. (\$1,585,291)
“ “ Property Tax	2,582,956.64	“ (692,232)
Total	8,498,223.21	Kr. (\$2,277,523)

It will thus be seen that the income tax constituted nearly 70 per cent of the total amount. The number of income taxpayers was 306,937 and the total amount of income assessed was 643,571,209 Kr. (\$172,482,074). The collections from income tax in 1907 had risen to about \$2,150,000 and the number of income taxpayers in 1908-9 to 337,011, or 15 per cent of the total population of 2,588,919.¹⁸

Copenhagen, the capital city, has a communal or city income tax which is based upon a law of Oct. 22, 1903, as amended June 2, 1909, and ratified by the

¹⁸. Congressional Record, Vol. 45, p. 1112.

King, April 18, 1910.¹⁹ The main purpose of the tax is to meet any deficiencies in the budget, and it is separate from, and additional to the government income tax. The first section of the law is as follows:

The amount necessary to meet the communal expenses of the city of Copenhagen, and not provided for by other communal taxes or income from other sources, shall be raised by an income tax which shall be levied in accordance with the following law.

The computation of the rates is somewhat peculiar, the basis being arranged by the following scale:

Taxable income under 800 Kr. pays one per cent of amount up to 600 Kr., and $1\frac{1}{4}$ per cent of the amount above that sum. For example, if the amount of income is 700 Kr. the tax would be 1% of 600=6, plus $1\frac{1}{4}$ % of 100=1.25, total $7\frac{1}{4}$ Kr.

800 to	1,000 Kr.	1.1% of	800 Kr. and	2.6% of the remainder.
1,000	" 2,000	" 1.4%	1,000	" " 3.4%
2,000	" 6,000	" 2.4%	2,000	" " 3.6%
6,000	" 10,000	" 3.2%	6,000	" " 3.7%
10,000	" 20,000	" 3.4%	10,000	" " 4. %
20,000	" 40,000	" 3.7%	20,000	" " 4.3%
40,000	" 100,000	" 4. %	40,000	" " 5. %
100,000	" 200,000	" 4.6%	100,000	" " 5.4%
200,000 Kr.		5. %	200,000	" " 6. %

The percentages above given are not the rates of taxation, but simply form a proportional basis (*Grundbeløb*), which may be raised or lowered by a uniform percentage according to the amount necessary to be collected.

The provisions for administering the tax are substantially similar to those in the income tax law of the general government.

¹⁹ Lov om Indkomstskat til Kjøbenhavn's Kommune samt Anordning af 22 Oktober, 1903, og Anordning af 2 Juni 1909. V. Pios Boghandel, Copenhagen, 1910.

CHAPTER IV.

ENGLAND.

The income tax now in force in Great Britain and Ireland is often spoken of as the most successful measure of the kind which has thus far been devised. Not only is the absolute amount raised by it each year larger than has ever been obtained by an income tax in any other country, but its collection is accomplished with less harshness and friction than are usually supposed to be necessary with this form of tax. "The chief merit of the English income tax lies in the remarkably large extent to which it is collected at the *source*—thus obviating the necessity for inquisitorial proceedings upon the one hand, while removing the opportunity for fraud and evasion upon the other. It is stated by one who has given the subject very careful study that probably more than four-fifths of the tax collected is assessed in such a way, or under such conditions, that evasion is, broadly speaking, out of the question.¹ In the most important

¹. See monograph on the English Income Tax by Joseph A. Hill, Ph.D., in *Economic Studies*, Vol. 4, Publications of American Economic Association, pp. 272 and 387. This is the clearest exposition of the administrative features of the English income tax which has come to our notice and it will be referred to frequently in the following pages.

schedule, the tax is levied upon over 88 per cent of the income subject to it. A second advantage of the English system is that by its division of income into separate schedules, assessed to a considerable extent by different officials, complete knowledge of one's financial condition is not obtained by any one assessor. A third great merit of the tax is that the amount of it can be readily adjusted to the fiscal needs of the country by a very slight change in the rate. It is true that the rate is rendered progressive by abatements on smaller incomes and a super-tax on the larger; but there is one fixed rate upon the basis of which all computations are made and as this rate is determined for each year by act of Parliament a certain elasticity is given to the tax.

History. The idea of levying taxes with reference to the amount of income received by the taxpayers is by no means new in England. As early as 1379 a graduated poll tax was imposed, based in part upon income. It should be explained that this was not a poll tax in the strict sense of a fixed sum demanded of every person; but the term was formerly used in England in connection with taxes levied upon all the persons in a class. The people were divided into classes according to their rank, condition in life, property or income, and each person was taxed according to the rate fixed for the class to which he was assigned. In many respects the tax bore a certain resemblance to the later class-tax or *Klassensteuer*, of Germany. These poll taxes, usually graduated in amount progressively, were imposed at various intervals in the fifteenth and sixteenth centuries and were measures of considerable fiscal importance.

The first English income tax in the modern sense of the term was introduced at the instance of William Pitt, at that time Prime Minister and first Lord of the Treasury, in January, 1799. It bore some general resemblance to the present law in that incomes were divided into four main schedules, a certain sum was exempt, allowances were made for children and for life insurance premiums. But it differed from the later tax by being graduated, the highest rate being ten per cent. According to Pitt's original estimate the tax was designed to produce ten million pounds but the actual yield was only about six million pounds, and the law was repealed in 1802.

In 1803, what is known as Addington's Property and Income Tax was imposed. This tax bears a striking resemblance to the one now in force. It differed from Pitt's plan, which involved a general return of income from all sources, in that it provided for particular returns from particular sources and substituted a flat rate of one shilling on the pound (which is the exact rate that has been levied for the past few years), for the progressive rate. The schedules A, B, C, D and E were substantially the same as in the present law, and there were the usual exemptions and abatements.

In 1806 a new law known as Petty's Property and Income Tax was passed. It differed from the law of 1803 in some minor details, and was repealed in 1815. not because it had proved itself inefficient, but because it had been adopted only as a war, or emergency measure, with the general understanding on the part

of the tax-paying public that it would be repealed as soon as the war was ended.

The net yield of the tax for the year ending April 5, 1815, was £14,545,279 (\$70,690,056) which, it will be noticed, was nearly three times the amount realized from the tax a quarter of a century later and nearly half the amount which it now produces—a remarkable result in view of the fact that the population and wealth of the country have quadrupled since 1815.

For twenty-seven years after 1815, there was no income tax in England. In 1842 Sir Robert Peel revived the tax, partly to provide for a deficit in the budget and partly to enable him to reduce the tariff. It is said that the adoption of the law was immediately followed by the placing of over 700 articles on the free list. This fact is significant in connection with the possible effect upon the tariff of a Federal income tax in the United States. Although the tax of 1842 was levied as a temporary expedient for a period of only three years, it was found, at the end of that time, that it could not well be dispensed with and in 1845 it was extended for another three years and again in 1848. In 1851 and 1852 it was continued for only a year, as there was some talk of abolishing it. In 1853 Gladstone obtained the consent of Parliament to a continuance of the tax for seven years at a rate of seven pence for the first two years, six pence for the second two years and five pence for the last three years—the evident intention being to gradually decrease the amount of the tax until it could be finally abolished. But the tax had come to play such an important role in the finances of the country that noth-

ing could be found to replace it, and although still voted from year to year, it has become a permanent feature of the British taxing system.

Rates and Schedules. The annual rate has varied from 5 pence in the pound in 1853, to 1 shilling 4 pence during the Crimean War, in 1856; and from 2 pence in 1874, to 1 shilling 3 pence in 1902, during the South African war. For the past few years, until 1909, the rate has been fixed at 1 shilling in the pound or 5 per cent. The abatements and super-tax result practically in changes of rate for certain individual taxpayers, but the amount of revenue which the tax will yield is usually estimated on the basis of what each penny of the rate will produce. Thus, in 1898, when the rate was 8 pence the total revenue collected for each penny of the tax was £2,188,000 (\$10,692,000) and in 1907, when the rate was 1 shilling the total revenue for each penny was £2,667,000 (\$12,977,000). In terms of American currency this would be approximately \$5,350,000 and \$6,500,000 for each one cent of the tax in the respective year.²

The different kinds of taxable income are classified under five heads or schedules:

Schedule A includes income from "property in all lands, tenements, hereditaments and heritages in the United Kingdom"—in other words, income arising from the *ownership of lands and houses*, including the rental value of premises occupied by the owner as well as the rents received by the landlord from the tenant.

². See Consular Report in Congressional Record, Vol. 44 (July 3, 1909) p. 4151.

Schedule B applies to the direct income from the *use or occupation of land*, that is, the income received by the farmer, whether owner or tenant. Schedules A and B do not apply to land or buildings used for industrial or business purposes. The income from such sources would be included in Schedule D.

Schedule C includes "all profits arising from *interest, annuities, dividends* and shares of annuities payable to any person, body-politic or corporate company or society, whether corporate or not corporate, *out of any public revenue.*"

Schedule D covers :

a). The annual profits or gains arising or accruing to any person residing in the United Kingdom from any kind of property whatever, whether situate in the United Kingdom or elsewhere; and annual profits or gains arising or accruing to any person residing in the United Kingdom from any profession, trade, employment, or vocation, whether the same shall be respectively carried out in the United Kingdom or elsewhere.

b). The annual profits or gains arising or accruing to any person, whether a subject of His Majesty or not, whether a resident within the United Kingdom or not, from any profit whatever in the United Kingdom, or any *profession, trade, employment, or vocation* exercised within the United Kingdom.

c). All interest of money, annuities, and other annual profits and gains not charged by virtue of any of the other schedules.

This is the most important schedule as it applies to more than half of all the income assessed, and owing to the provision embodied in the last sentence it should have been logically the last schedule.

Schedule E is often placed before *D* and applies to the income from *public office or employment* of profit, and upon every annuity, pension or stipend payable by His Majesty, except annuities charged to the duties under schedule *C*.

Exemptions. The law of 1803 exempted £60 (\$292). The law of 1842 exempted all incomes under £150. This exemption was changed in 1853 to £100, in 1876 to £150 and in 1894 to £160 (\$778), at which point it has since remained.

Abatements. Taxpayers whose incomes are between £160 and £700 are entitled to certain abatements, not of the tax, but of the amount on which the tax is levied, as follows:

An abatement of £160 on incomes exceeding £160, but not over £400									
"	"	"	£150	"	"	"	£400.	"	£500
"	"	"	£120	"	"	"	£500,	"	£600
"	"	"	£ 70	"	"	"	£600,	"	£700

Where income arises under different schedules the abatement is allowed preferably from the amounts reported in schedules *D* and *E*. If, for instance, the claimant's income consisted of £200 derived from his business or occupation (schedule *D*) and £100 representing the annual value of his dwelling house (schedule *A*), the abatement of £160 would be deducted from his business income, and he would thus be taxed for £40 of income in schedule *D* and £100 in schedule *A*. The effect of these abatements is curiously regressive within the first class and progressive thereafter. For example, a taxpayer having an income of £161 would pay (assuming the rate to be one shilling on the pound) a five per cent tax on the one pound which would be taxable, while the person whose income was £400 would pay only 240 shill-

ings or three per cent. The rates for the lowest and highest amounts in each class would therefore be as follows:

Lowest amounts	Highest amounts
On £161 = 5. %	On £400 = 3. %
" £401 = 3.1%	" £500 = 3.5%
" £501 = 3.8%	" £600 = 4. %
" £601 = 4.4%	" £700 = 4.5%

In addition to these abatements there are deductions from gross income, such as those for life insurance premiums, charities and hospitals, repairs of lands and houses and wear and tear of machinery or plant. Deductions of one-eighth are allowed in respect of lands and one-sixth in respect of houses for repairs.

A new abatement has been added in the budget of 1909 by means of which persons earning under £500 a year are given an allowance of ten pounds for every child under sixteen years.³

To secure any of these abatements it is necessary to present a claim accompanied by a declaration of all income received. It appears that in most cases the full amount of tax is paid and the amount of abatement repaid on proper proof. It is said that, in order to secure the abatements and deductions which are allowed, about four-fifths of the income taxpayers make written declarations of their aggregate income.

In 1897, under this cumbersome method, over 300,000 claims were presented.⁴ The amount of tax refunded in the same year was £891,741 (\$4,339,212).

³. See Clause 68 of Part IV of Finance Bill of 1909.

⁴. About sixty per cent. of those who pay income taxes in England receive allowances or rebates. Bastable, C. F. *The Budget of 1907 considered with special reference to the Income Tax*. *Economic Journal*, Vol. 17 (June, 1907), p. 165.

Of this amount £326,000 was for exemptions, £228,000 for abatements, £118,000 for charities,⁵ £47,000 for life insurance premiums and the residue for various other reasons.⁶ The variety and extent of the abatements account for the large proportion of income taxpayers who make declarations of their income.

As to the actual practical workings of this system of abatements the following comments by Mr. Hill will prove instructive:

These abatements of course have the effect of making the tax progressive up to the point where they cease to apply. Progression may on general grounds be justifiable and desirable. But a tax which, like the English income tax, is levied upon the sources of income is not well suited for any extended application of the progressive principle; and whatever may be said in favor of the abatements it can hardly be denied that, so far as the question of administration is concerned, the tax has been complicated and, we may add, weakened by their introduction and recent extension. Probably the great majority of taxpayers are now entitled to an abatement. But in order to secure it they must make a declaration of their aggregate net income from all sources, and in order to guard against fraud the officers of assessment must satisfy themselves that the declarations are correct. In this way the necessity for ascertaining individual incomes and relying upon declarations is being extended, and the advantages of an assessment at the source of the income are in a corresponding degree sacrificed. Then there is the inconvenience involved in assessing and collecting a tax to which the government is not entitled and afterwards refunding it. That the progression thus introduced by means

⁵. Allowances are made for the income of colleges and universities, hospitals, literary and scientific institutions, land used for charitable purposes, friendly societies, public schools, trade unions, etc. See Consular Report in Congressional Record, Vol. 45 (Jan. 27, 1909), p. 1105.

⁶. Hill, Joseph A. *The English Income Tax*. In *Economic Studies*. Published by the American Economic Association, Vol. 4, p. 349.

of abatements should have been carried as far as it has been under conditions as unfavorable to its extension, is indicative of the strength of the tendency towards progressive taxation, under the influence of modern democracy. In this instance the development of progression has doubtless been promoted by the comparatively high rate (8d. in the pound) at which the tax has been assessed in recent years. Unable to reduce the tax on all incomes, because of the need of revenue, the government has reduced it on the smaller incomes by extending the abatements. But when such an extension is once made, it is pretty certain to be retained and perpetuated even though the rate of the tax should be reduced to where it formerly stood. Then the next time the Chancellor finds it necessary to ask for another penny of income tax, he will again be tempted to palliate the proposal by granting another extension of the abatements. It becomes a question how far this process can be carried without so counteracting the advantages of the method by which the tax is assessed as to render preferable the substitution of the alternative method of assessing all the tax directly upon the recipients of the income.

Super-tax. Among the recent changes made in the law is the addition of a super-tax of six pence in the pound on all incomes exceeding £5,000, making the total rate on such incomes $6\frac{2}{3}$ per cent. This additional tax was expected to yield, in 1909, £2,300,000 (\$11,186,800), and the law now requires a declaration of total income on the part of all persons liable to this super-tax.⁷

Differentiation. Another of the recent reforms is the differentiation between earned and unearned incomes. By earned incomes are meant those which are the result of personal efforts and labor, and by unearned incomes those which are the products of investments. The differentia-

⁷. For copy of the paragraph relating to the Super-tax see Chapter 1 of this book p. 16.

tion is effected by a reduction of 25 per cent in the rate on earned incomes under £2,000 and, in the budgets admitted to Parliament for 1909, the tax on unearned incomes was increased by 2 d. making it 1 s. 2 d.

Administration. It must be admitted that the methods by which the English income tax is assessed and collected are quite complicated—so much so, in fact, that we must forego any attempt to describe them in detail. A fairly terse and clear account of those methods is given by Joseph A. Hill in his excellent article upon the English Income Tax, to which we have already referred. His review of the manner in which the tax is administered comprises about 150 pages. A few of the facts which may be of interest are noted here.

The first step in the assessment is taken by the *assessor* who leaves at each house in the parish to which he is assigned a set of blank forms for making returns. He also posts a notice or warning to all taxpayers to make their returns within 21 days, and there is a penalty for failure to comply. When the assessor has received the returns he examines them and makes up an assessment which is submitted to another official known as the *surveyor* who can “rectify” the assessment if he chooses. He acts under the immediate direction and supervision of still another official known as the *inspector*. The inspectors are under the authority and control of the *Board of Inland Revenue* to which specially difficult matters are referred. This Board practically represents the Government in the proceedings. The interests of the taxpayers are represented by the *General Commissioners* and by

additional and special commissioners acting under them. The general commissioners are required to be property owners and taxpayers and they are appointed by the *Land Tax Commissioners* who are a self-perpetuating body. There are also *Commissioners for Special Purposes*, or *Special Commissioners*. The members of the Board of Inland Revenue are *ex-officio* Special Commissioners and a number of others are appointed by the Treasury. Every taxpayer may elect whether he will be assessed by the General Commissioners for his district or by the Special Commissioners.

It will thus be seen that the general commissioners, who act as a final revisory and appeal board, are neither elected by the people nor appointed by the Government and are therefore in a particularly favorable position for exercising their unbiased judgment. The above are by no means all the officials concerned with the assessment and collection of the tax, but what has been said will suffice to show what great care has been taken to have the administration of the tax carried out in a thorough and effective manner.

Under the law as it stood a few years ago declarations were not required as to the greater part of the tax. For example, a government official would have the amount of his income tax deducted from his salary and would therefore have no occasion to make a declaration. A considerable portion of the tax is assessed from "external marks" or, as we would say in America, from "actual view." The extent to which these different methods were employed in the year 1902-3 is shown by the following table:

I. (Declaration of the taxpayer <i>unnecessary</i>)		
Schedule A.	Ownership of lands, houses, etc. <i>view</i>	241,900,000
" B.	Occupation of lands, <i>view</i>	17,500,000
" C.	Government Securities, <i>stoppage at source and deduction</i>	46,100,000
" D.	Foreign business securities, where income was received through agents or public companies, <i>deduction</i>	30,500,000
" E.	Profits of Companies and local authorities, <i>deduction</i>	245,600,000
" F.	Salaries of government and public Company officials, <i>stoppage at source, deduction and declaration of employing Company</i>	82,400,000
		<hr/> £664,000,000
II. (Declaration of the taxpayer <i>necessary</i>)		
Schedule D.	Profits and salaries, persons and firms	211,200,000
Schedule D.	Foreign Securities taxed by declaration	4,400,000
		<hr/> £215,600,000
Total.....		£879,600,000

Financial Results. The exact relation of the "property and income tax" to other revenues of the United Kingdom appears in the following summary of sources of revenue for the fiscal year ending March 3, 1909 :

Customs	£ 29,200,000
Excise	33,650,000
Estate, etc., duties.....	18,370,000
Stamps	7,770,000
Land Tax.....	730,000
House duty.....	1,900,000
<i>Property and income tax</i>	33,930,000
Post office.....	17,770,000
Telegraph and telephone.....	4,530,000
Crown lands.....	530,000
Suez Canal, etc.....	1,171,466
Miscellaneous	2,026,829
<hr/>	
Total.....	£151,578,295

From this total, in order to segregate the revenue derived from taxation, it is necessary to deduct the receipts from the post office, telegraph and telephone, crown lands, Suez Canal shares and miscellaneous sources amounting to £26,028,295. Making this deduction, it ap-

pears that the amount raised *by taxation* for the fiscal year was £125,550,000 (\$610,936,000) and that the income tax of £33,930,000 (\$165,103,380) was the largest item, being 27 per cent of the total tax.

The following table will show the amounts raised by the tax for ten years. The bulk of the increase in later years was due to increased rates, though not exclusively so, as the gross amounts and the net incomes both increased in the period mentioned. Since every year reveals incomes previously covered up, the consequent addition either to the gross income or to the net income is more apparent than real and cannot be taken as entirely a fresh addition to the national wealth. The full returns of net receipts from the tax and rates charged in the period from 1899 to 1909⁸ (to which we have added the percentages) are as follows:

Year	Amount	Rate in the pound sterling		Percentage
		s.	d.	
1899-1900	£18,867,336	0	8	3.3
1900-1901	27,561,160	1	0	5.
1901-1902	35,378,700	1	2	5.83
1902-1903	38,659,846	1	3	6.25
1903-1904	30,500,450	0	11	4.58
1904-1905	31,263,654	1	0	5.
1905-1906	31,294,752	1	0	5.
1906-1907	31,891,949	1	0	5.
1907-1908	31,860,380	1	0	5.
1908-1909	33,930,000	1	0	5.

The relative importance of the income reached by the various schedules may be seen by the following statement of the amount of income taxed in the year ending March 31, 1907, after the abatements and deductions had been made:

⁸. The fiscal year in England ends March 31.

Class 1.	Profits from ownership of lands, houses, etc. (Schedule A.)	£158,452,590
Class 2.	Profits from occupation of lands, etc. (Schedule B.)	£ 4,111,585
Class 3.	Profits from British, Colonial and foreign Government securities. (Schedule C.)	£ 41,710,964
Class 4.	Profits from business, professions, employments, etc. (Schedule D.)	£381,036,647
Class 5.	Salaries of Government, corporation and public company officials. (Schedule E.)	£ 54,736,452
Total.		£640,048,238

The number of income taxpayers has been variously estimated at from 1,100,000 to 1,375,000, but as the greater portion of the tax is collected at the source, and as a single taxpayer might have income arising from many different sources and in different taxing districts, the number of assessments would be no indication of the number of taxpayers. In 1907 the number of assessments under Schedule D was 578,600, of which 476,404 were upon individuals and the remainder on business firms and public and private corporations. To these figures might be added employees under schedules D and E to the number of 519,189, making a total of 1,097,789.⁹

While it can hardly be said of any tax that it is popular, the fact that the British income tax has been in continuous operation for a period of nearly seventy years, would seem to indicate that the English people have become fairly reconciled to it. There will always be people who will look upon the tax as unjust and inquisitorial,¹⁰

⁹. Pepper, Charles M. Report, as Special Agent on British Income Tax. Monthly Consular and Trade Reports (U. S.) June, 1909, No. 345, p. 209. On page 215 of this report there would seem to be an error by which 101,344 employees of business firms are omitted from the computations of assessments on gross income.

¹⁰. For a statement of the argument against the British Income Tax see "Tyranny of the Income Tax" in Blackwood's Magazine, 178, pp. 279-84, August, 1905, where it is characterized as "the most

but among those who control the financial policy of the British Empire there seems to be no thought of abolishing the tax.

The comparative success of the English income tax cannot be used as an argument in favor of such a tax in the United States, without taking into account the essential difference in the conditions which prevail in the two countries. As has been well said :

England is, *par excellence*, the country of fixed incomes—that is, of incomes derived from safe investments. The number of persons living on such incomes drawn from the public funds, home or foreign, from rent charges, from mortgages, from farm rents and railroad shares, and varying little, if any, from year to year, is large in proportion to

dishonorable and humiliating tax that has ever been put upon a willing and generous nation."

As a typical instance of the feeling which such a tax engenders when it is introduced for the first time, the following correspondence, culled from the memoirs of John Horne Tooke, and quoted by David A. Wells in his *Theory and Practice of Taxation*, p. 527, is given :

May 3, 1799.

Sir: The commissioners having under consideration your declaration of income have directed me to acquaint you that they have reason to apprehend your income exceeds sixty pounds a year. They therefore desire that you will reconsider the said declaration and favour me with your answer on or before the 8th inst.

I am your obedient servant,

W. B. LUTTLEY, Clerk.

To this Mr. Tooke replied :

Sir: I have much more reason than the commissioners can have to be dissatisfied with the smallness of my income. I have never yet in my life disavowed or had occasion to reconsider any declaration which I have signed with my name. But the act of Parliament has removed all the decencies which used to prevail among gentlemen, and has given the commissioners (shrouded under the signature of their clerk) a right by law to tell me that they have reason to believe that I am a liar. They have also a right to demand from me upon oath the particular circumstances of my private situation. In obedience to the law, I am ready to attend upon this degrading occasion so novel to an Englishman, and give them every explanation which they may be pleased to require.

I am, sir, your humble servant,

JOHN HORNE TOOKE.

the number of those who draw their incomes from what we call "active business," or professional gains, to a degree of which Americans have little idea. England is a country of enormous accumulated capital lent out in every direction all over the world, the yield of which supports a vast body of persons in complete or partial leisure. Among us this class is comparatively small. Nearly every American is in a greater or less degree a trader or speculator, and is "turning over" his capital, if he has any, in some enterprise of varying degrees of profit.

The most commendable feature of the English system is the extent to which it favors the collection of income tax at the source; but it is not likely that any law could be devised which would meet with equally favorable results in that respect in the United States.¹¹

¹¹. In some of the authorities cited in this chapter frequent references will be found to "Pareto's Law," which consists of the following mathematical formula: if x denotes any given income, and y the number of incomes equal to or greater than x , then $x^ay = b$ a and b being constants and the value of a usually being about 1.6. As applied to income tax statistics in a number of countries the law works out with great exactness, varying even less than the well established tables of mortality.

Vilfredo Pareto. *La courbe de la répartition de la richesse*. [Extrait du Recueil publié par la Faculté de droit de l'Université de Lausanne, à l'occasion de l'Exposition nationale suisse Genève, 1906.]

CHAPTER V.

FRANCE.

This chapter might be disposed of briefly by the statement that there are no income taxes in France;¹ but even if such a statement could be truthfully made at the present moment, the prospects are that a different situation will present itself in the immediate future. The world-wide movement in favor of income taxation, which seems to have reached every civilized country, has made itself felt in France, where the need of some radical fiscal reform has been keenly felt for many years. The Chamber of Deputies has already passed a bill which substitutes an income tax for nearly all the Government taxes heretofore levied and, while the Senate may insist upon some modifications, the probabilities are that a law will be agreed upon which will embrace the essential features of the present bill. It cannot be said of this measure that it was hastily prepared. On the contrary, it has probably received more preliminary study and consideration than was ever accorded to a similar law in any country. Dur-

¹. Some of the present taxes in France are based upon real or assumed income. "The *contribution personnelle mobilière* in 32,000 Communes is an income tax on presumed ability to pay, assessed as a super-tax in addition to the other direct taxes, by a local jury." Speech of the Minister of Finance in the French Chamber, July 12, 1906.

ing the past thirty years innumerable schemes for taxation of income have been submitted to the French Parliament and a great number of commissions, *parlementaire* and *extra-parlementaire*, have investigated the subject.² The present proposed law has occupied the attention of Parliament for more than three years and has given rise to a great amount of discussion in which the most profound students of political economy and the ablest public men have taken a prominent part. Whatever may be the outcome of the present agitation in France, it cannot fail to be of interest to Americans who are soon to find the same problem in the foreground of national politics. The history of the present law may be briefly summarized as follows:

In October, 1906, Minister Clemenceau referred in his message to a tax on incomes as one of the reforms imperatively demanded by the French people. In pursuance of this suggestion a carefully prepared bill was presented by the Government for the consideration of Parliament on the 7th of February, 1907. This bill, together with three other projects which had been presented in the previous July, was referred to the Commission on Fiscal Legislation, consisting of thirty-two members, of which M. Camille Pelletan was President. The Fiscal Commission made its first report June 13, 1907, and on the 25th of the same month, on motion of M. Pelletan, supported by M. Caillaux, Minister of Finance, the bill was made the order of the day from July 1st. The dis-

². The chief projects were those of Casimir Périer (1871), Bouvier (1874), Gambetta (1876), the Commission of 1885, Peytral (1888), Rabier (1890), Maujan (1891), Burdeau (1894), the Commission of 1894, Ribot (1895), Doumer (1896), Cochery (1896), Peytral (1898), Rouvier (1903), and the Fiscal Commission of 1904.

cussion of the bill lasted eleven days, and was then suspended until January 20, 1908, when it was resumed and continued until February 18th. The debates which followed occupied most of the time given to the sessions for a full year, and finally culminated in the passage of the bill by the Chamber of Deputies March 9, 1909, by a vote of 388 in favor of the bill against 129 opposed, there being 26 absentees.

The opposition to the bill was led by Jules Roche, whose brilliant and impassioned speeches have since been published in book form;³ while the defense of the measure was ably managed by M. Pelletan, President of the Fiscal Commission and M. Caillaux, Minister of Finance. The law was attacked on many grounds, but chiefly on account of its inquisitorial character and its class discriminations resulting from its progressive character and the numerous abatements in the lower grades. The supplemental tax, which applies only to incomes over 5,000 francs⁴ (\$1,000), was especially inveighed against and it was shown that it would rest upon the shoulders of a comparatively small class—perhaps 500,000—of the taxpayers. In answer to this M. Caillaux said: "Gentlemen, it is true that in this country, there are not more than 500,000 or 600,000 taxpayers who have incomes of more than 5,000 francs. But what then? Our friends on the right have tried to excite your sympathy on behalf of this class who are about to be called on to bear a

³. Roche, Jules, *L'impôt sur le Revenu*, 1909. Paris, Ernest Flammarion.

⁴. A franc is equal to 19.3 cents of American money and 5,000 francs would be \$965.00, but when only the approximate amount in American money is required it is usually obtained by dividing the number of francs by five.

small part of the public burdens. For my part I shall reserve my solicitude for the millions and millions of Frenchmen who are not exposed to this peril for the excellent reason that they do not receive 5,000 francs of income in the course of a year." He also pointed out that France was no longer a country of small fortunes, but that six-tenths of the national wealth was owned by 260,000 persons and that, while these persons constituted one-eightieth of the tax-paying population, the amount which they contributed in the form of indirect taxes was insignificant and the progressive features of the law were necessary to counterbalance this inequality.

As was to be expected the Socialists were strongly in favor of the bill and it is evident from a perusal of the debates that political considerations were by no means left out of view in framing the measure.

While it seems reasonably certain that public sentiment will demand the passage of an income tax law in France, it is impossible to predict at the present writing (October, 1910) what changes may result from the opposition of the Senate, and it has therefore seemed best to mention only a few of the salient features of the law as it was passed by the Chamber of Deputies.

In its general outlines the proposed law bears most resemblance to the Prussian system, particularly in respect of *l'impôt complémentaire* which is substantially the same as the German *Ergänzungssteuer*, or supplementary tax, except that the rate is higher. The division of income into several categories was evidently suggested by the English and Italian laws, while the principles of abatement and differentiation have been worked out, to some extent, along original lines.

The radical change which the new law would bring about in the French fiscal system is shown by its first article which provides for abolishing the following taxes :⁵

1. The *real estate* tax on both improved and unimproved property.
2. The *personal property* tax.
3. The tax on *doors and windows*.
4. The *license* tax (*patentes*), business and professional.

These four taxes, often referred to as "*les quatre vieilles*" (the four old women), constitute the main sources of revenue for the National Government, as will appear by the following table in which the amounts which they produce at present are compared with the amounts which it is estimated could be secured from the same sources by an income tax :

Source	Present yield of tax	Estimated yield of income tax
Real Estate (built upon).....	91,000,000 fr.	98,000,000 fr.
Real Estate (not built upon).....	105,000,000 "	45,000,000 "
Personal property.....	101,000,000 "	300,000,000 "
Doors and windows.....	66,000,000 "	
Licenses	138,000,000 "	
Interest and Dividends of French securities	71,000,000 "	
Interest and Dividends of foreign securities	9,000,000 "	
Transfer tax, stamp tax, etc.....	109,000,000 "	
Profits of Commerce and Industry..		110,000,000 "
Profits of Agriculture.....		7,000,000 "
Salaries and Pensions.....		7,000,000 "
Liberal professions.....		4,000,000 "
Supplementary tax.....		170,000,000 "
	690,000,000 fr.	741,000,000 fr. ⁶

⁵. The statement is often made that the proposed French law substitutes an income tax law for all other taxes; but such is not the case. The Federal government retains some minor taxes, such as the tax on billiard tables, clubs, horses and carriages, etc.

⁶. In preparing this table the amounts in the first column, representing the yield of the taxes which it is proposed to suppress,

The manner in which incomes are classified and the rate applicable to each class will be seen from the following table:

Class	Rate of Tax (per cent.)
1. Income of real estate (built upon).....	4
2. " " " " (not built upon).....	4
3. " " personal property.....	4
4. " " commerce and industry.....	3.50
5. " " agricultural pursuits.....	3
6. " " salaries, fees and pensions.....	3
7. " " the liberal professions and all other lucrative occupations not specified in the preceding classes.....	3

The above classes, or categories, as they are called in the law, permit a differentiation between earned and unearned incomes. It was evidently considered that the greater part of the income in classes 1, 2 and 3 was derived from capital, and the rate is therefore higher. Class 4 includes mixed incomes, that is those derived partly from capital and partly from labor; while classes 5, 6 and 7 are given the lowest rate as being *earned* incomes, or incomes derived from personal exertion.

The rates which would otherwise be proportional are given a progressive character in the lower grades by a great number of exemptions and abatements, varying according to the different classes. In general it is assumed that 1,250 fr. (\$241.25) is the minimum of existence,

are taken from the Exposé des motifs, Chambre, session ordinaire, No. 737, Journal Officiel, Feb. 17, 1907, and the estimate of the yield of the income tax is that presented by the Minister of Finance at the session of March 2, 1909. See L'Impôt sur le Revenu, Adm. Dalloz, p. 15. According to estimates made by Deputy Renault, the supplementary tax (Impôt complémentaire) may be expected to produce 150,000,000 francs.

though in some cases the revenue above 625 fr. (\$120.62) is taxed.

A sharp distinction is drawn between total exemptions at the bottom of the scale (*dégrèvements à la base*) and deductions or abatements from the taxable portion of income (*déductions sur la partie taxée du revenu*). In the first four of the classes given above there is no exemption except in a few special cases where taxpayers having a total income of less than 1,250 fr. are allowed an exemption as to 625 fr. In the fifth class there is a total exemption of incomes of farmers below 1,250 fr. In the fifth and sixth classes generally the exemptions may range from 1,500 to 3,000 fr., according to the size of the city or commune in which the taxpayer has his residence.

Thus:

In communes of 10,000 inhabitants or less the exemption is..	1,500 fr.
“ “ “ 10,000 to 100,000 inhabitants.....	2,000 fr.
“ “ “ more than 100,000 inhabitants.....	2,500 fr.
“ Department of the Seine (Paris) the exemption is.....	3,000 fr.

This grading of the exemptions is calculated to counterbalance to some extent the higher cost of living in the larger cities. The justice and propriety of such a differentiation is at once apparent and the plan is likely to commend itself to other countries.

The abatements under the proposed law, may be in accordance with scientific principles, but they are more intricate and involved than is desirable in a law of such general application. Complicated as they are by the large number of schedules, the varying exemptions and the abatements in the supplementary tax, they will render it difficult for the average citizen to estimate the amount

of income he is likely to be called upon to pay. It would seem as though the same progression might have been obtained in a simpler manner by changes of rates on the smaller incomes.

There is no abatement in the first and third classes. In the second, if the income exceeds 1,250 fr., but does not exceed 5,000 fr. there is a reduction of

75%	upon incomes up to	620 francs
50%	" " between	620 and 1,000 francs
25%	" " " " 1,000 " 1,250 "	

In the fourth class, which embraces the joint product of labor and capital, the allowances are larger, being (if total income does not exceed 20,000 fr.) :

six-sevenths of the amount below	1,500 fr.
two-thirds of the portion between	1,501 and 2,500 fr. and
one-fourth " " " " "	2,501 and 5,000 "

The fifth class relates to farmers, and abatements are allowed, providing that the *valeur locative réelle* (rental value) does not exceed 12,000 fr. These abatements consist of

two-thirds of the amount between	1,251 and 2,000 francs.
one-third " " " " "	2,001 " 3,000 "

This may seem simple, but as the farmer's income is reckoned at one-half of the rental value below 5,000 fr. and two-thirds of the rental value above that sum, the formula to determine the amount of tax in the case of a farm having a rental value of 12,000 fr. would be $12000 - (\frac{1}{2} \text{ of } 5000 + \frac{1}{3} \text{ of } 7000) - 1250 - (\frac{2}{3} \text{ of } 750) - (\frac{1}{3} \text{ of } 1000) \times .03 = 152.50 \text{ francs.}$

In the fifth and sixth categories, which refer wholly to the income from personal exertion the abatements are

five-sixths of the taxable income up to	3,000 francs.
four-sixths " " " " between	3,001 and 3,500 "
three-sixths " " " " "	3,501 " 4,000 "
two-sixths " " " " "	4,001 " 4,500 "

Without going into the intricacies of the computations, which must be reckoned separately for each grade, it may be of interest to know that a person having a salary of 10,000 fr. (say \$2,000), would pay a tax of

155 fr. (\$31)	if living in a commune of less than 10,000 inhabitants.
140 " (\$28)	" " " " " " 10,000 to 100,000 "
125 " (\$25)	" " " " " " over 100,000 "
110 " (\$22)	" " " " " " Department of the Seine.

The *Supplementary tax*, known as "*L'impôt complémentaire sur l'ensemble du revenu*" is a tax of 5 per cent upon the total income of each single individual, or head of a family, in excess of 5,000 fr. regardless of its source or of the exemptions and abatements applicable in other cases. This tax is expected to contribute between one-fourth and one-fifth of the whole amount raised by income taxation. It is made progressive by a provision that the 5 per cent rate shall apply to only

one-fifth	of the income between	5,001 and 10,000 fr
two-fifths	" " " "	10,001 " 15,000 "
three-fifths	" " " "	15,001 " 20,000 "
four-fifths	" " " "	20,001 " 25,000 "

The extent to which these abatements affect the true percentage is shown by the following table:⁷

Actual income Francs	Amount taxed Francs	Amount of tax Francs	Proportion of tax to actual income
5,000	0	0	
6,000	200	10	0.16 per cent.
7,000	400	20	0.28 " "
8,000	600	30	0.37 " "
9,000	800	40	0.44 " "
10,000	1,000	50	0.5 " "
11,000	1,400	70	0.63 " "
12,000	1,800	90	0.75 " "
13,000	2,200	110	0.84 " "
14,000	2,600	130	0.92 " "
15,000	3,000	150	1. " "
and so on to			
20,000	6,000	300	1.5 " "
100,000	85,000	4,250	4.25 " "
and to			
1,000,000	985,000	49,250	4.92 " "

⁷. See *L'Impôt sur le Revenu*. Administration Dalloz, p. 97.

It will be seen by the above that, although the rate is nominally 5 per cent, it varies from a very small fraction of one per cent to a sum approximating—but never quite reaching—five per cent. Combining this rate with that of the first class, for example, would make the total rate on very large incomes nearly 9 per cent.

The provisions for the *administration* of the law are not as elaborate as in England and Germany, and it is doubtful whether, in view of the temperament of the French people,⁸ they will prove as effective. In France, as in every other country where an income tax has been tried, the greatest difficulty has been to devise a plan for ascertaining the income of each taxpayer, which should not seem too harsh and inquisitorial. The proposed law provides for three methods:

1. Valuation by administrative officials.
2. Valuation made upon the basis of exterior signs.
3. Declaration by the taxpayer.

An example of the first method is seen in the plan by which certain officials estimate the income from improved real estate on the basis of rental value. An instance of the second is found in the case of the supplementary tax on non-residents owning buildings, in which case the income is assumed to be seven times the annual rental value of the building. Declarations are required from all persons subject to the supplementary tax and are, in most cases, a necessary pre-requisite to securing abatements or correction of excessive valuations. The officials

⁸. Cf. Parieu. *Traité des Impôts* Vol. 1, p. 481. Vidal. *L'Impôt sur la Revenu*, *Revue Internationale du Commerce de l'Industrie et de la Banque*. Sept., 1904. Roche, *L'Impôt sur le Revenu*, pp. 92, 146, 392.

to whom is entrusted the administration of the tax are prohibited from disclosing the information which they obtain relating to incomes, except through official channels.

In considering the proposed law as a whole one is struck by the absence of adequate provisions for collecting income at the source.⁹ It would seem as though this might possibly have been accomplished in respect to rented property, salaries and pensions, though it would, of course, result in many reclamations owing to the numerous exemptions and abatements.

If the proposed law is finally passed¹⁰ its operation will be observed with interest by all students of political economy; if it fails of passage it will still be instructive as showing the conclusions which were reached by a large body of intelligent men after mature study and deliberation.

⁹. In the case of the interest-bearing securities comprised in the third category provision is made for *enregistrement* and for collection *par voie de retenue* (retention at source). See Articles 22 to 29 of the "projet de Loi" passed by the Chamber March 9, 1909.

¹⁰. As an indication of the attitude of the Government toward the proposed law, a recent utterance of M. Georges Cochery, Minister of Finance, is significant. Speaking on behalf of the Government, at a conference held with the Budgetary Commission, September 26, 1910, he stated that he would in no case consent that the law which was passed by the Chamber should be mutilated or picked to pieces (*mutilé ou morcelé*). *Le Matin*, September 30, 1910.

CHAPTER VI.

GERMANY—PRUSSIA.

The income tax laws in force in Germany have not been formulated in any hasty or hap-hazard manner. They reflect the best thought of scholars and publicists of world-wide reputation. There is perhaps no other country in which the subject of political economy in general and that branch of it which relates to taxation in particular, has received more careful, thorough-going and exhaustive study than it has in Germany; and there is probably no other country in which the conditions were more favorable for the introduction of such a law. The Germans are a patriotic as well as a law-abiding people and realize that heavy taxes are necessary to meet the ever increasing demands of their enormous military establishment. The *Klassensteuer*, or class taxes, which preceded the income taxes, while not based wholly upon income, embodied the principles of classification and progressive taxation to such an extent that the German public was prepared to accept the same principles with equanimity when applied to an income tax. Moreover, the advocates of socialism, who constitute a large portion of the population, have always looked with favor upon the progressive income tax as a measure which was likely to bring about a more equal distribution of wealth.

But I would not like to be understood as intimating the desirability of adopting the German income tax law in this country, or as suggesting that equally successful results could be looked for under conditions so essentially different. The minuteness of the police supervision, the strictness with which the laws are enforced and the comparative stability and permanence of business enterprise in Germany, are all conditions which are peculiarly favorable to the enforcement of an income tax law; while in this country the looseness and laxity with which our laws are administered, the vast extent, complexity, mobility and variety of business activities, and the greater freedom of speech and action which we enjoy, all tend to make the problem a much more difficult one. The military service, which is required of nearly every German citizen is calculated to impress very strongly upon the soldiers the importance of prompt, absolute and unquestioning obedience to constituted authority and the lesson thus learned bears fruit in civic life, contributing in no small degree to the successful administration of the laws.

While mention is often made of the "German Income Tax," the expression is, to say the least, misleading. The German Empire as such does not levy any income tax.¹ The twenty-six states which since the Franco-Prussian War of 1871-1872, have composed the German Empire, all have complete or partial income taxes; but the systems which have been adopted are extremely varied, and it can hardly be said that there is any feature of their income tax laws which is of such general application as to

¹. Handwoerterbuch der Staatswissenschaften, Vol. III, 3d Ed. (1909) p. 696.

make it characteristically German. It is true that the autonomy of the separate states as regards foreign relations is merged in that of the Empire; but on the other hand, their sovereignty in respect of local government and particularly in matters of taxation is fully recognized by the Imperial Constitution.

There is nothing in the constitution of the German Empire to prevent it from levying income taxes if it should desire to do so; but it is not likely to enter the field of income taxation which is already so fully occupied by the separate states. The lack of uniformity in the various states is an evil which has made itself felt, but the smaller political subdivisions are jealous of any measure which would tend to greater centralization or which would have the appearance of an encroachment upon their time-honored source of revenue.

Prussia. It would lead too far afield to attempt a complete analysis of all the systems in vogue in the different German states and it has therefore seemed best to devote one chapter to a somewhat detailed account of the Prussian law, and another to an outline of the methods followed in the smaller states. Prussia is the most important, as it is one of the most progressive of the German states. It includes more than half the population of Germany² and although it was one of the last of the States to adopt an income tax it has developed a system which, while not free from defects, possesses many excellent features.

². The population of Prussia at the end of the year 1905 was 37,293,323. See Statistisches Jahrbuch fuer den preussischen Staat for the year 1909.

The Prussian income tax law now in force is based upon the law of June 24, 1891, the law of July 14, 1893, regulating the income tax to be levied by local bodies—municipal and rural—(*Kommunal Abgabengesetz*), the law of June 19, 1896, and the amendments of March 22 and May 26, 1909. The law, with the amendments, comprises over 100 paragraphs and the following is merely a brief summary³ of its most important provisions.

Who is liable to income tax. (Section 1) The first three sections of the law are devoted to the duty of paying the tax subjectively considered (*Subjektive Steuerpflicht*).

1. Prussian subjects, except

a) Those who are not residents of Prussia, but reside in some other German state.

b) Those who, though living in Prussia, have an official domicile in another German state.

c) Those who have permanently resided abroad for more than two years.

2. Subjects of other German states domiciled in Prussia, officially or otherwise.

3. Foreigners domiciled in Prussia or remaining in Prussia for commercial purposes or those who have resided in Prussia for one year.

4. Corporations, joint stock companies, mining companies and registered societies or associations whose commercial activity extends beyond the circle of their members.

5. Co-operative societies, whether they do business outside of the circle of their members or not.

6. Limited liability companies, except public corporations and those which devote their income exclusively to charitable, scientific and artistic purposes.

³. Translated and condensed from "Einkommensteuergesetz" by A. Fernow, 7th Ed., dated 1908, but containing laws of March 22 and May 26, 1909.

7. Without regard to nationality, domicile or length of sojourn, persons receiving income from the Prussian Government in the form of salaries, pensions, annuities, etc., or deriving income from Prussian real property or commercial or industrial institutions.

By Section 3 certain members of the royal family and other nobility and certain accredited diplomatic representatives are exempt from the operation of the tax.

What incomes taxable. (Sections 4 and 5) In considering the operation of the tax objectively (*objektive Steuerpflicht*) the law first provides for certain exemptions and exceptions. All incomes under 900 marks, whether of persons or corporations are exempt, and there is excepted from the operation of the law the income derived:

1. From real estate or commercial undertakings in other German states or from salaries, pensions or half-pay of military or civil officials accruing to them from other states.

2. By foreigners from real estate or industrial enterprises abroad, providing such foreigners are not residents in Prussia for commercial purposes.

3. From military pay of non-commissioned officers and from soldiers and other persons on the active list of the army and navy.

4. From certain payments received by Imperial and Prussian officials residing in foreign lands.

5. Payments which accrue as a result of insurance against sickness.

6. Sinking funds.

What constitutes income. (Section 6) Income includes the total receipts of a person liable to pay the tax in money or money's worth from

1. Capital.

2. Real estate and rents including rent value of the habitation occupied by the owner.

3. Commerce and trade, including mining.

4. All profitable occupations and rights to periodical payments or monetary advantages which do not come under heads 1, 2 and 3.

Extraordinary receipts, such as moneys received from inheritance, gifts, life insurance or the sale of property (the sale of property not being one's business), are not considered as taxable income, but as an increase of the capital; and gains and losses in the amount of capital are not considered, except in so far as by reason of them the product of the capital is increased or diminished.

What to be deducted from gross income. (Section 8)
From the gross income designated in Section 6 there should be deducted the expenditures incurred for the acquisition, security and maintenance of the income and that which produces the income.

Under the head of expenses of production, the law recognizes:

1. Contributions towards public irrigation works.
2. Amounts payable towards direct municipal taxation by way of ground tax or building tax or industrial tax.
3. Contributions payable to official trade associations.
4. Amounts necessary to make good the ordinary wear and tear of buildings and machinery.

There is also to be deducted from total income:

1. Interest payable on debts.
2. Annuities and permanent obligations due upon private contracts or as an incident of church patronage.
3. Legal and contractual contributions towards insurance against sickness, accident, old age, insurance for widows and orphans, payments towards pension funds, provided, however, that the total amount for this purpose does not exceed in any year 600 marks.
4. Payments made under contract for the gradual reduction of a mortgage debt, providing such payment does not exceed one per cent. of the capital and the amount of 600 marks per annum.

Among the items not deductible from income are :

1. Expenses incurred in improving and increasing the original capital or source of income or in extending a business.

2. Household expenses of the taxpayer and moneys paid for support of those dependent upon him and especially all expenses for the gratification of personal needs, such as rent of house, food, clothing, service, attendance, education, including the value of annual products used towards these ends.

Period for which income reckoned. (Section 9) A distinction is made in this section between persons and corporations, and a further distinction is made between the gains from business in trade, commerce and mining by persons bound to keep commercial books, and other incomes. The law seems to contemplate first that the income of a natural person shall be determined upon the basis of the status of the various sources of his income at the beginning of the taxing year. It is then provided that profits in trade, commerce and mining made by persons who are bound to keep books shall be assessed by the average of the three working years immediately preceding the year in which the tax is levied. If books have been kept for a shorter period only, the income may be estimated upon the average of such shorter period and, in calculating this average, losses in any year may be deducted from the profit of the other years. In practice the assessment may be said to rest generally in all other cases upon the working result of the year immediately preceding the fiscal year. The method of averaging for three years may be extended to farming operations, if proper books are kept of the receipts and expenses. The assessment of corporations is based upon the average results of the three working years preceding. Liability

of corporations to pay income tax begins only from the time when a surplus exists; and the assessment operates from the first of the month immediately succeeding this acquired profit. Incomes of corporations other than companies with limited liability are composed of the profits which are divided in the form of dividends. Amounts used to pay off debts or the original capital, or used for the improvement or extension of the business, or for the formation of a reserve fund (except in the case of insurance companies), in so far as they exceed $3\frac{1}{2}$ per cent of the paid-up capital, are reckoned as income. The taxable income of companies with limited liability consists of the working profits of the company.

Section 10 provides that the head of the household shall be assessed upon his own income and that the income of his wife shall be included unless she is permanently separated from him, in which case it is assessed to her, and the income of the children is also included in so far as it is controlled or used by the parents.

Section 11 defines at some length the various forms of income from capital.

Section 12 is chiefly devoted to the methods of estimating incomes from real estate and ground rents. A peculiar provision of that section relates to such forests as are not managed upon a systematic plan. The receipts from such forests are not reckoned as income unless they exceed one-tenth of the total value of the timber.

Section 13 is devoted to an analysis of income received from trade, commerce and mining, while Section 14 gives a more extended definition of what is meant by income from profitable occupations and periodical payments or pecuniary benefits.

Section 15 relates to the methods of ascertaining the incomes of stock companies in general, while Section 16 defines net income of limited liability companies.

Rates of Taxation. The scale of rates provided for in Section 17 applies to all incomes, except those earned by limited liability companies. For the sake of uniformity and to make the table more useful we have added the amounts in American money and computed the percentages:

Income			Tax		Percentages	
Marks	Dollars	Marks	Marks	Dollars		
	900 (\$ 214)	to 1,050	6 (1.43)		.66 to	.57
Over 1,050	(250)	" 1,200	9 (2.14)		.85 "	.76
" 1,200	(286)	" 1,350	12 (2.86)		1. "	.88
" 1,350	(321)	" 1,500	16 (3.81)		1.18 "	1.
" 1,500	(357)	" 1,650	21 (5.)		1.4 "	1.27
" 1,650	(393)	" 1,800	26 (6.19)		1.57 "	1.44
" 1,800	(428)	" 2,100	31 (7.38)		1.72 "	1.47
" 2,100	(500)	" 2,400	36 (8.63)		1.71 "	1.5
" 2,400	(571)	" 2,700	44 (10.47)		1.83 "	1.63
" 2,700	(643)	" 3,000	52 (12.37)		1.92 "	1.73
" 3,000	(714)	" 3,300	60 (14.28)		2. "	1.81
" 3,300	(785)	" 3,600	70 (16.66)		2.12 "	1.94
" 3,600	(857)	" 3,900	80 (19.04)		2.22 "	2.
" 3,900	(925)	" 4,200	92 (21.90)		2.35 "	2.19
" 4,200	(1,000)	" 4,500	104 (24.75)		2.45 "	2.31
" 4,500	(1,071)	" 5,000	118 (28.08)		2.62 "	2.36
" 5,000	(1,190)	" 5,500	132 (31.12)		2.64 "	2.4
" 5,500	(1,309)	" 6,000	146 (34.75)		2.65 "	2.43
" 6,000	(1,428)	" 6,500	160 (38.08)		2.66 "	2.46
" 6,500	(1,547)	" 7,000	176 (41.88)		2.7 "	2.51
" 7,000	(1,666)	" 7,500	192 (45.80)		2.74 "	2.56
" 7,500	(1,785)	" 8,000	212 (50.46)		2.82 "	2.65
" 8,000	(1,904)	" 8,500	232 (55.22)		2.9 "	2.73
" 8,500	(2,033)	" 9,000	252 (59.98)		2.96 "	2.8
" 9,000	(2,142)	" 9,500	276 (65.69)		3.06 "	2.9
" 9,500	(2,261)	" 10,500	300 (71.40)		3.15 "	2.85

The tax rises from these rates in the case of higher incomes as follows:

Incomes exceeding Marks	To inclusive Marks	In grades of Marks	The tax is increased by Marks
10,500	30,500	1,000	30
30,500	32,000	1,500	60
32,000	78,000	2,000	80
78,000	100,000	2,000	100

In the case of incomes above 100,000 m. to 105,000 m. inclusive, the tax amounts to 4,000 m. and from that point it rises at the rate of 200 m. for every additional grade of 5,000 m.⁴

In the case of *companies with limited liability* the rates are as follows:

For incomes exceeding Marks	To (inclusive) Marks	Tax Marks	For incomes exceeding Marks	To (inclusive) Marks	Tax Marks
900	1,050	5	3,900	4,200	96
1,050	1,200	10	4,200	4,500	112
1,200	1,350	14	4,500	5,000	132
1,350	1,500	18	5,000	5,500	148
1,500	1,650	24	5,500	6,000	164
1,650	1,800	30	6,000	6,500	180
1,800	2,100	36	6,500	7,000	200
2,100	2,400	42	7,000	7,500	220
2,400	2,700	48	7,500	8,000	240
2,700	3,000	56	8,000	8,500	260
3,000	3,300	66	8,500	9,000	280
3,300	3,600	76	9,000	9,500	300
3,600	3,900	86	9,500	10,500	340

The tax rises in the case of higher incomes as follows:

Incomes exceeding Marks	To inclusive Marks	For every Marks	The tax is increased by Marks
10,500	46,500	1,000	40
46,500	48,000	1,500	60
48,000	100,000	2,000	100

In the case of incomes from 100,000 m. to 104,000 m. inclusive, the tax amounts to 4,600 m. It rises in the

⁴. It will be noticed that the rate is regressive from the percentage standpoint as to the amounts in any one of the first 26 grades. For example, in the case of the third grade embracing incomes of from 1,200 to 1,350 M. the tax of 12 m. would be one per cent of the first amount, but would be only eight-tenths of one per cent. of the latter amount. In one case even the *grades* are partly regressive so that 2,100 M. in the eighth grade really pays a smaller per cent. than 1,800 M. in the preceding grade. In the higher grades the tax is intended to approximate four per cent. The rate is proportional (at three per cent.), from 9,500 to 30,500 m., as to the arithmetical mean of the extremes of each grade. For incomes over 100,000 m. the rate is proportional at four per cent. on the lowest amount of each grade.

case of higher incomes, for every grade of 4,000 m. by 180 marks.

Abatements. Section 19 provides that if a person is assessed for a taxable income of not more than 3,000 m. (\$714) and is legally bound to support children or other relatives, a reduction of 50 m. (\$12) from the taxable income is granted for each such member of the family. When three or more such members have to be supported the reduction amounts to a full grade of the table of rates; and when there are five or more such members the reduction amounts to two grades. In case the income is between 3,000 m. and 6,500 m. there is a reduction of one grade in case three or four children or relatives have to be supported and of two grades if the number is five or more.⁵ In fixing the number of members of the family which are to be considered under this section, the wife is not included, nor are those children above the age of fourteen years, who are permanently occupied in the agricultural or industrial enterprise of the person assessed, or who enjoy an income of their own of more than half the ordinary local wage calculated with due regard to age and sex.

Under Section 20 in fixing the amount of taxable income of any person whose income does not exceed 9,500 m., the assessing officials are authorized to take into con-

⁵. Section 19 has been amended by the law of May 26, 1909, so that persons whose income does not exceed 6,500 m. are entitled to a reduction of one grade if they have two children or other relatives whom they are legally bound to support. If the number of dependents is three or four the reduction is two grades; if five or six, three grades; and allowance of one grade is made for each dependent above six. For persons having incomes of more than 6,500 m., but not exceeding 9,500 m., the abatement is one grade for three dependents, two grades for four or five and one grade for every two additional.

sideration any unusual conditions which have arisen to affect unfavorably the source of income, and to grant abatements accordingly, but not to exceed three grades. The conditions which might thus be taken into consideration consist only of extraordinary burdens which arise in connection with the support and education of children or in connection with the duty of supporting impecunious relatives or from continued illness or other especially serious calamities.

Assessment. The portion of the law which relates to the assessment and levy of the tax, comprising Sections 21 to 60, is very carefully worked out and contains many excellent features. As the first step of the proceeding, the official head of every community (*Gemeinde- oder Guts-Vorstand*) must prepare a complete list of all persons and corporations or legal entities within his district who are liable for the payment of income tax; also of all real properties and commercial enterprises within the district for which income tax is payable by non-residents. Every owner of occupied premises, or his representative, must supply the official in question with a schedule of the persons living upon such property, their names, occupations, date and place of birth, and religion; and, in case of workmen, servants and apprentices giving also the name of the employer and the place of employment. For this purpose every head of a household is required to supply the owner of the occupied premises with a schedule of the persons in his charge (including those who are residents away from home, as pupils, apprentices, etc.). Workmen, servants and business employees are bound to supply the head of the household with the necessary information concerning their employers and place of employment.

Whoever permanently employs in his household or in connection with his profession or trade other persons to whom he pays salaries or wages is required, if that income so paid does not exceed the sum of 3,000 m., to make return thereof to the official head of the municipality or community within whose district his trade or profession is carried on, and the requirements of such return are set forth in detail.

On the strength of the information thus derived the official heads of the various communities make returns of the probable income of all those persons within their district who are liable to pay income tax.

Declaration of income. Every person enjoying an income in excess of 3,000 m., which is liable to income tax, is notified by public advertisement and thereby required to make declaration on special forms within a stated limited period. For corporations, the declaration must be accompanied by annual reports, minutes of general meetings relating to same, etc. Limited liability companies also are bound to hand in their balance sheets, and the income derived from such companies must be separately returned. If any abatements or reductions are demanded they must be noted also in the return. In case it should become necessary to estimate the income, the declaration may be accompanied by documents certifying the estimate to be correct. If the return is not made within the period limited by the authorities, a fine is incurred amounting to 5 per cent of the income tax payable and this fine increases to 25 per cent when a second period, fixed by the authorities, has been disregarded. The declarations of income of persons under parental control or

under guardianship, and those for corporations are made by the proper representatives.

The next step in the proceeding is a provisional or preliminary assessment made by a special board (*Voreinschaetzungskommission*) or Preliminary Assessment Commission, which considers the incomes below 3,000 m. This is followed by a general assessment commission (*Veranlagungskommission*) presided over by a government official whose work is chiefly concerned with the incomes above 3,000 m. From the decision of this commission there is a provision for appeal to the Assessment Commission (*Einschaetzungskommission*) and then to an Appeal Board (*Berufungskommission*); and in case of incomes exceeding 3,000 m. to the *Oberverwaltungsgericht*, a higher Appeal Court.

Fluctuation of income. By Sections 61 to 66 provision is made for any great or unusual changes in income, but a reduction of income of less than one-fifth is not considered.

Payment of Taxes. The tax is payable quarterly, within the first half of the second month of each quarter. These payments cannot be delayed through claims for redress, but may be made under protest.

Municipal income tax. In addition to what might be called the government income tax there are municipal income taxes which are assessed at a certain percentage of the government tax and constitute an addition of from 100 to 200 per cent. The average amount thus levied, in upwards of thirty of the most important Prussian cities, was 154 per cent of the government tax, so that upon an income of 100,000 m. the two taxes together would amount to about 10 per cent. It is estimated that these

municipal income taxes yield $48\frac{1}{2}\%$ of the total taxes raised for municipal purposes in the cities where they are levied.

Supplementary taxes. In addition to the income tax proper there is the *Ergaenzungssteuer* (supplementary and complementary tax) sometimes called the *Vermögenssteuer*, or wealth tax. This tax was provided for by the law of July 14, 1893, which has been in force since April 1, 1895. It was designed as a substitute for the three forms of taxation which the general Government released to the provinces, to-wit:

1. *Grundsteuer* (Real estate tax).
2. *Gebäudesteuer* (House tax).
3. *Gewerbesteuer* (Tax on industries).

The tax is levied upon persons liable to income tax and is based upon the *ensemble* of wealth in real and personal property of every kind, thus corresponding very closely with the *impôt complémentaire* in the proposed French law.

There are certain deductions, such as debts, entail charges, household furniture, etc. The following persons are exempt from the tax:

- a. Those whose taxable property does not exceed 6,000 m.
- b. Those whose annual income does not exceed 900 m. and whose total property is not worth 20,000 m.
- c. Women, orphans, etc., in certain cases, if their income does not exceed 1,200 m. and the value of their property is less than 20,000 m.

Without attempting a full description of this tax, which is only to a partial extent a tax on income, it will perhaps suffice to say that the rate is one-half mark per

thousand on the lowest amount of each one of a large number of grades. On the broad assumption that property or wealth yields an income of 4 per cent the tax would work out at a rate of about $1\frac{1}{4}$ per cent, or, under the new law, a little over $1\frac{1}{2}$ per cent. The amount realized by this tax has been about one-sixth of the amount raised by the income tax proper.

Super-tax. To meet a deficit of some fifty million marks, the Government undertook to raise about half of this sum from additions to the income tax and the remainder from stamp duties and other sources. The additions (*Zuschlaege*) to the income tax are percentual and are levied in this form in order that they shall not become a basis for increased municipal income taxation. This tax is in the nature of a "tax upon a tax" and is only temporary and provisional until a complete reorganization of the system of direct state taxation can be accomplished. The Government has undertaken to effect such reorganization, involving, for example, a more systematic and scientific progression, within three years. The percentages levied may be seen from the following table:

Incomes exceeding (Marks)	To inclusive (Marks)	Physical persons	Non-physical persons	
			Limited Liability Companies	Share Companies Share partnerships Mining Companies
1,200	3,000	5%	7.5%	10%
3,000	10,500	10 "	15 "	20 "
10,500	20,500	15 "	22.5 "	30 "
20,500	30,500	20 "	30 "	40 "
30,500		25 "	40 "	50 "
Supplementary tax.....				25 "

The rates are not as excessive as might, at first glance, be supposed. For example, the regular income tax on an income of 3,000 m. would be 60 m. and the super-tax of 20 per cent would be one-fifth of that sum, or 12 m.,

bringing the total income tax up to 72 m. (\$20). The highest rate would not exceed 6 per cent, that is, 4 per cent plus 50 per cent of 4 per cent. The amount of this tax for the year 1909 was 46,400,000 m. (\$11,000,000).

Increment tax. A number of the larger cities in Germany have levied a *Wertzuwachssteuer*, or tax on the so-called unearned increment in land values, designed to reach accretions of income which result from advances in land values. For example in Cologne, under a law passed in 1905, there is a tax on the increased value of real estate since the date of the last transfer, if such increase exceeds 10 per cent, and this increment tax is calculated according to the following scale:

A. Where not more than five years have elapsed since a previous change of ownership:

If the increase in value exceeds

10%, but not	20%,	the rate of tax is	10% of the increase
20%, " "	30%, " "	" " " "	11% " " "
30%, " "	40%, " "	" " " "	12% " " "
40%, " "	50%, " "	" " " "	13% " " "
50%, " "	60%, " "	" " " "	14% " " "
60%, " "	70%, " "	" " " "	15% " " "
70%, " "	80%, " "	" " " "	16% " " "
80%, " "	90%, " "	" " " "	17% " " "
90%, " "	100%, " "	" " " "	18% " " "
100%, " "	110%, " "	" " " "	19% " " "
110%, " "	120%, " "	" " " "	20% " " "
120%, " "	130%, " "	" " " "	21% " " "
130%, " "	140%, " "	" " " "	22% " " "
140%, " "	150%, " "	" " " "	23% " " "
150%, " "	160%, " "	" " " "	24% " " "

If the increase in value exceeds 160%, the rate of tax is 25% of the increase.

B. When more than five years, but not more than ten years, have elapsed since the previous change of ownership, two-thirds of the above rates are levied.

C. Where more than 10 years have elapsed, one-third of the rates. This tax is in addition to a transfer tax (*Umsatzsteuer*) of 2 per cent.⁶

A bill has been introduced in the Reichstag which abolishes all taxes of the class above described imposed by municipalities and which substitutes a general unearned increment tax. The revenue from this tax is to be divided into three parts, 40 per cent going to the municipalities, 10 per cent to the provinces and 50 per cent to be retained by the Imperial government. As originally introduced, the bill provided for a graduated tax ranging from $5\frac{1}{2}$ per cent where the increased values did not exceed 10 per cent, to 12 per cent where the unearned increment was above 400 per cent. This bill was referred to a special commission which held several sessions in the month of May, 1910, and revised the law in numerous particulars. It is not expected, however, that the bill will come before the full assembly of the Reichstag for action until autumn.⁷

Financial Results. Before giving any statistical results it may be well to mention the fact that the population of Prussia, according to the census of 1905, was 37,293,324,⁸ which corresponds quite closely with the population of the United States during the later years of the Civil War income tax period.⁹ The wealth of Prussia has been recently estimated at about 130 billion marks

⁶. The amount raised by this tax has thus far been insignificant. Seligman, *Progressive Taxation*, p. 55.

See also *Taxation of Land, etc.*, (English Blue Book) C.D. 4750, p. 15.

⁷. *Frankfurter Zeitung*, May 6, 7 and 12, 1910.

⁸. *Statistisches Jahrbuch fuer den preussischen Staat*, (for the year 1909), p. 2.

⁹. The population of the United States in 1870 was 38,558,371.

(\$30,940,000,000),¹⁰ while that of the United States in 1870 was placed at \$24,054,814,806,¹¹ which was probably too low, being based wholly on assessed valuations for taxation.

The amount of the Prussian income tax (including the supplementary tax) as shown by the budgets of the past few years was, in round numbers :

Years	Marks	Dollars
1906	237,500,000	55,925,000
1907	261,000,000	62,118,000
1908	284,300,000	67,667,400
1909	359,000,000	87,822,000 ¹²

The place which the income tax fills in the fiscal system of Prussia will be seen by comparison with the following amounts :

The three chief sources of revenue of the Prussian States for 1909 were (net) :

State railways.....	415,168,620	
Other sources.....	108,527,866	
		523,696,486
Taxation		423,874,100
	Total	947,570,586 marks

It therefore appears that the income tax contributed nearly 84.7 per cent of the Federal taxes and 37.8 per cent of the three items above.¹³ Leaving out the supplemental tax and including the super-tax the amount of income tax for the year 1909, was 326,874,962 m. or

¹⁰. Le Marché Financier by Arthur Raffalowich, 1908-1909, p. 104.

¹¹. United States Census Report, Wealth, 1904, p. 31.

¹². Statistisches Jahrbuch, 1909, pp. 238-239.

¹³. The total gross revenue of Prussia for 1909 is given in the Jahrbuch (p. 241), as 3,495,440,000 Marks, but a comparison with this amount would be futile as nearly half this sum is expended for the operation of railroads alone. We have been unable to find a reliable estimate of the *net* income for the year in question.

\$77,796,240. This sum was an increase of 56,266,610 m. or, 20.79 per cent over the preceding year.¹⁴

The total amount of income tax levied in 1909 fell upon

3,875,751 taxpayers in cities who paid.....	249,190,000 m.
2,231,870 " " the country who paid	77,680,000 "
<hr/> 6,107,621	<hr/> 326,870,000 "

The taxable income amounted to 14,030,940,000 m., or \$3,339,363,720, being an average of 2,653 m. for each taxpayer residing in the cities and 1,835 m. for those living in the country.

The increase in the amount of income tax *levied* since the year 1892, has been 127.55 per cent, or, on the basis of taxes *raised* (including the super-tax or *Zuschlagssteuer*) 161.83 per cent.

Of the total number of taxpayers there were

Natural persons.....	6,099,422
Artificial persons (corporations, etc.).....	8,199
<hr/> Total.....	<hr/> 6,107,621

The natural persons who paid income tax constituted 16.36 per cent of the total population of the Kingdom.¹⁵

The number of persons whose income did not exceed 900 m. (\$214) was 17,669,438.

The number of persons who paid income tax, together with the relatives, etc., dependent upon them, was 18,850,291.

¹⁴. Mittheilung aus der Verwaltung der direkten Steuern in preussischen Staate. Statistik der preussischen Einkommensteuer-Veranlagung fuer das Steuerjahr, 1909, p. 1.

¹⁵. Compare this with the United States, where, during the four years, 1867-1870, the average number who paid income tax was 267,564, or about two-thirds of one per cent of the population.

The increase in the number of taxpayers from 1907 to 1908 was nearly half a million, while from 1908 to 1909 it was 223,248.

If we classify the natural persons who paid income tax according to the grades in which they were assessed the following results are shown:

Income Group		Dollars	Number of Taxpayers	Per cent
Marks	Marks			
900 to	3,000	(214 to 714)	5,477,856	89.81
3,000 "	6,500	(714 " 1,547)	436,501	7.16
6,500 "	9,500	(1,547 " 2,261)	78,070	1.28
9,500 "	30,500	(2,261 " 7,259)	85,158	1.40
30,500 "	100,000	(7,259 " 23,800)	18,019	0.30
over	100,000		3,818	0.06

The above table shows that about nine-tenths of the people who pay income taxes are assessed for incomes of less than 3,000 m.¹⁶

¹⁶. For statistics of the year 1907, see Revenues from the Prussian Income Tax, by Consul General Richard Guenther, in United States Consular Report No. 334, p. 154, July, 1908. Also, Operation of the income tax in the State of Prussia by Vice-Consul Risdorf, United States Consular Report No. 346, p. 27, July, 1909.

CHAPTER VII.

GERMANY.

MINOR GERMAN STATES.

The experiences of the smaller German States with income taxation are extremely interesting; but anything like a full account of them would fill a bulky volume and this chapter will show only the more notable peculiarities and characteristics of each system.

Alsace Lorraine. The task of gradually transforming the French system of direct taxes, which prevailed in Alsace Lorraine, into a general scheme approximating more nearly that of the other German states, has been a long one and is not fully completed. During the nine years from 1892 to 1901, a series of laws was passed, some of which were preparatory and some executory, having for their object the substitution of the *Kapitalsteuer* (tax on income from capital), *Lohn-und Besoldungssteuer* (wages and salaries tax) and a lower *Grundsteuer* (real estate tax), for the “*contribution personnelle et mobilier*,” “*patentes*” and “*l’impôt foncier*” which were features of the French system.¹ The chief laws affecting the income tax were those of May 20, 1901, and Nov. 14, 1905.

¹. Roche. *L’impôt sur le Revenu*, p. 57.

The *Kapitalsteuer* is designed to reach *unearned* incomes, and the *Lohn- und Besoldungssteuer* applies to earned incomes. The latter tax however is not of universal application as it rests only on personal earnings and receipts not already taxed.

There is a fixed rate of 1.90 per cent which is rendered progressive by a series of decreasing abatements. In the lower grades the tax is levied on a certain percentage of the mean of the two amounts of income which constitute the grade. For example, in the fourth grade of 700 m. to 800 m., the tax consists of 1.90 per cent of 15 per cent of the mean of that grade (750 m.) which would be 2.14 marks. This will appear more plainly by the following extracts from the table of rates:

No. of Grade	Income (Marks)		Mean	Percentage of income taxed	Amount of tax (Marks)
1	Under	500	250	10	.47
2	500 to	600	550	10	1.04
3	600 "	700	650	10	1.23
4	700 "	800	750	15	2.14
*	*	*	*	*	*
10	2,000 "	2,500	2,250	30	12.82
*	*	*	*	*	*
16	6,000 "	7,000	6,500	60	74.10
*	*	*	*	*	*
22	20,000 "	25,000	22,500	100	427.50

In cases where income from all sources is less than 700 m. the tax is not levied. The taxable unit, subjectively, is the household; but members of the household, whose incomes do not reach 500 m. are not considered, nor does the amount help to swell the aggregate.

Although the Alsatian system is only a partial income tax the estimated receipts from it for 1908 were 1,900,000 m. (\$452,200).

Anhalt. Since 1904 this province has had a progressive income tax which comprises 29 grades. The first and lowest grade is from 600 m. (\$142.80) to 750 m.

and the unit of taxation is 0.15 per cent of a mark (15 Pfennige). The twenty-ninth grade includes incomes of 11,000 m. to 12,000 m. for which the tax unit is 11.25 m. From this point for each 1,000 m. of additional income the tax is increased by 125 m. up to 59,000 m., and from 59,000 m. to 100,000 m. by 150 marks.

There is also a trade tax and an investment tax (*Kapitalrentensteuer*), the former of which is levied on all business undertakings whose profits amount to 10,000 m. or more and is laid at the rate of one per cent up to 110,000 m., thence rising at the rate of one-tenth of one per cent for each 10,000 m. up to 200,000 m. where it reaches a uniform rate of two per cent. The investment tax begins at 5,000 m. to 5,500 m. with a tax of 24 m. rising gradually to a tax of 195 m. on incomes from 12,500 to 13,000 marks. Incomes above that sum pay one and one-half per cent.

Baden. The chief peculiarity of the law in this province which had its beginning in 1884, is the extent to which the rates are rendered progressive by means of abatements in the lower portion of the scale and increasing percentages in the higher portions.

As in the case of the Swedish law the lower incomes are assessed at much less than their true amount. In Sweden, however, the full amount is assessed when 4,000 Kr. (\$1,072) is reached, while in Baden the full income is not taxed until it amounts to 20,000 m. (\$4,760). Moreover in Sweden there is a uniform rate of one per cent while in Baden the rate is uniform (as applied to the abated amounts) up to 2,500 m. and again from 2,500 m. to 25,000 m. It is then increased by 5 per cent of itself for each one of the higher grades. For example, if the rate

for incomes from 25,000 m. to 30,000 is 2.5 per cent the rate for incomes from 30,000 m. to 40,000 m. would be 2.5 per cent plus five per cent of 2.5 per cent (.125) or 2.625 per cent. The following example will perhaps suffice to explain how the very long table of grades is formed, the rate being 2 per cent and 2.5 per cent on abated portion:

Income Marks	Portion taxed Marks	Percentage of tax to true or "unabated" income (on lower amount)
900 to 1,000	200.....	0.44
1,000 " 1,100	250.....	.5
1,100 " 1,200	300.....	.54
and so on to		
3,000 to 3,100	1,500.....	1.25
3,100 " 3,200	1,600.....	1.32
and so on to		
10,000 to 10,500	9,000.....	2.25
10,500 " 11,000	9,500.....	2.37
and so on to		
20,000 to 20,500	20,000.....	2.5

Incomes under 900 m. are exempt, but such exemption does not apply to incomes above that sum. The rates are changed from year to year. In 1906 and 1907 they ranged from 2.4 per cent and 3 per cent (on abated portion) to 4.2 per cent on incomes of 200,000 m. and upwards.

In the administration of the tax, declarations are required from all taxpayers and failure to give the declaration, after due notice, results in a forfeiture of the right to appeal from the assessment as made by officials. Appeals may be taken in the first instance to a Council of Assessment, corresponding to the American board of review; second, to the Taxation Board (*Steuerdirektion*) and, third, to the Administration Court (*Verwaltungsgerichtshof*) or to the Minister of Finance.

A peculiar feature of the collection of the tax, which is payable quarterly, is that it is made by a demand note, or draft, which must be paid within a certain time to a local bureau. In default of payment within the period prescribed, execution issues against the property of the taxpayer.

As to the financial results, the yield of the tax for 1904 was 9,308,860 m. (\$2,215,508); the gross amount of income assessed was 685,354,500 m. and the number of income taxpayers 335,536 or 17.6 per cent of the population (1,900,000).

Bavaria. While the Bavarian system is usually spoken of as a partial income tax, it is the outgrowth of attempts at income taxation which were made at a very early period. The general family tax of 1814 was superseded by a combined capital and income tax in 1850, which, however, did not meet the results expected and, by a revision made in 1856, the law was framed which has now been in force with but slight alterations for more than half a century.

The law is a partial income tax in so far as it does not apply to all incomes, but is designed to reach those incomes, the sources of which are not otherwise taxed. It thus serves as a sort of supplemental or complementary tax. It has been sometimes referred to as an "Earned Income Tax Act," but this is not strictly correct, as income from annuities which are not based upon personal services, are included.

The rates are very low, beginning with one-half of one per cent for incomes up to 500 m., reaching one per cent at about 7,000 m., 2 per cent at 20,000 m. and 3 per cent at 50,000 m. and upwards. The scale up to 14,000

m. comprises 32 classes or grades of which the first ten will suffice to show the low rate and slow progression:

Income		Tax	Percentage on Higher Am't of Income
Up to	500 M. (\$119)	50 Pf. (12c)	0.1
500 M. to	750 " (\$178)	1 M. (24c)	0.13
750 " "	900 " (\$214)	2 " (48c)	0.22
900 " "	1,050 " (\$250)	3 " (71c)	0.28
1,050 " "	1,200 " (\$297)	4 " (95c)	0.33
1,200 " "	1,400 " (\$333)	5 " (\$1.19)	0.35
1,400 " "	1,600 " (\$381)	6 " (\$1.43)	0.37
1,600 " "	1,800 " (\$428)	8 " (\$1.90)	0.44
1,800 " "	2,000 " (\$476)	10 " (\$2.38)	0.5
2,000 " "	2,200 " (\$524)	12 " (\$2.95)	0.55

There is no exemption at the foot of the scale though certain persons, such as domestic servants, widows, divorced women, orphans under eighteen years of age, etc., are not subject to the tax if their incomes are less than 750 marks. Incomes are assessed every four years, but there are ample provisions for necessary changes in the assessment, and deductions may be made for excessive expenditures necessitated by sickness, etc.

There is another tax, known as *Kapitalrentensteuer* (tax on income from capital), which reaches the greater portion of all "unearned" income. The rates are materially higher than in the case of "earned" incomes as will be seen by the following table:

Income	Rate
70 to 100 Marks.....	1.5 %
100 " 400 "	2. " "
400 " 700 "	2.5 " "
700 " 1,000 "	3. " "
1,000 " 3,000 "	3.5 " "
3,000 " 5,000 "	3.75 " "
over 5,000 "	4. " "

The results of these two taxes for the three years 1900 to 1903 are shown by the following statement:

	Average am't of income assessed	Average am't of tax collected	Average number persons assessed
Earned	\$159,236,146	\$ 778,626	629,981
Unearned	43,270,956	1,378,439	165,708
Total.....	\$202,507,102	\$2,157,065	795,689

The population of Bavaria (census of 1900) was 6,176,057, so that the proportion of persons who paid tax on earned income was 10.2 per cent and of those who paid on unearned income 2.68 per cent or 12.88 per cent for both.

For 1908 the amount collected from earned incomes was \$1,220,288, and the number of taxpayers 813,677. The unearned income tax, or tax on interest of capital yielded \$1,739,835, which was paid by 189,441 persons. The total of the two taxes was \$2,960,123, which was paid by 1,003,118 persons or 16.2 per cent of the population.²

Brunswick (Braunschweig). The law for this province was passed in 1899 and is modeled very closely after that of Prussia, though the rates are just half those in force in the latter country. Perhaps the most distinctive feature of the system is the division of the tax by which three-quarters goes to the Communes and one-fourth to the State. Four chief sources of income are recognized, viz.: 1. Capital; 2. Real property; 3. Trade, industry and mining; and 4. Personal earnings; but there is no differentiation between them so far as the rates are concerned. The amount of exemption is 900 marks. As in Prussia, companies are allowed to deduct from their incomes $3\frac{1}{2}$ per cent of the paid up capital.

There is also a supplementary tax (*Ergaenzungssteuer*) which is an exact copy of the Prussian law, except that the rate is only one-half as much. The exemption, however, remains the same, being 6,000 m. The

². United States Consular Reports, No. 346, (July, 1909) p. 27.

amount of tax provided by the Budget of 1908 was 3,219,000 m. (\$766,255) or 59.08 per cent of the total taxes.

Hesse. The law by which incomes are taxed in the Grand Duchy of Hesse was passed in 1899. The table of rates is a very long one and the progression is slow. The first ten grades are as follows:

Income				Tax		Percentage	
500 to	600 Marks	(\$143)	3	Marks.....	0.6	to	0.5
600 "	750 "	(178)	6	"	1	"	0.8
750 "	900 "	(214)	9	"	1.2	"	1
900 "	1,100 "	(262)	11	"	1.22	"	1
1,100 "	1,300 "	(309)	14.50	"	1.32	"	1.11
1,300 "	1,500 "	(357)	18.50	"	1.42	"	1.23
1,500 "	1,700 "	(405)	23	"	1.53	"	1.35
1,700 "	2,000 "	(476)	28	"	1.65	"	1.4
2,000 "	2,300 "	(547)	33.50	"	1.67	"	1.46
2,300 "	2,600 "	(619)	39.	"	1.69	"	1.5

The rate reaches 2 per cent at about 3,200 m. and 3 per cent at 9,000 m. From 12,000 m. each additional 1,000 m. of income bears an additional 35 m. of tax until the sum of 34,000 m. is reached. From that point each additional 1,000 m. has an additional tax of 40 m. until at 100,000 m. a percentage of 4.91 is levied.

The tax is collected in six instalments payable every second month beginning with April.

According to a French official publication there is a supplemental property tax (*impôt sur la fortune*) somewhat similar to the *Ergaenzungssteuer* which produced in 1904 the sum of 2,000,000 m. The yield of the income tax for 1904 was 8,877,600 m. (\$2,110,669) upon a total income of 445,767,000 m. (\$106,092,486). The number of income taxpayers was 312,360 or 25.8 per cent of the population. The Budget for 1908 calls for 10,860,000 m. (\$2,584,680).

Lippe-Detmold. The system of taxing incomes is defined by the laws of 1894 as amended in 1903, 1905 and 1907. It is modeled closely after that of Prussia, except that the rate is very low and is used simply as a unit. The annual budgetary law specifies how many units shall be raised and the rate is then increased by so much in each grade. The beginning of the scale is as follows:

Income	Tax Mark. Pf.	Percentage
300 to 400 M.	.12.....	0.04 to 0.03
400 " 500 "	.24.....	0.06 " 0.04
500 " 600 "	.36.....	0.07 " 0.06
600 " 700 "	.50.....	0.08 " 0.07
700 " 800 "	.75.....	0.10 " 0.09
800 " 900 "	1.	0.12 " 0.11
900 " 1,000 "	1.25.....	0.14 " 0.12
1,000 " 1,100 "	1.50.....	0.15 " 0.13
1,100 " 1,200 "	1.75.....	0.16 " 0.14
1,200 " 1,300 "	2.	0.16 " 0.15

The rate rises one-fourth of a mark for each 100 m. of income up to 2,100 m.; then the increase is one-half of a mark for each 200 m. up to 6,900 m., from which point one mark is added to the rate for every additional 300 m. of income.

Incomes under 300 m. are exempt for all persons and incomes up to 400 m. for persons 60 years of age or over. The law differs from the Prussian system in that there is no supplementary tax and limited liability companies are taxed upon their whole income.

Mecklenburg-Schwerin and Mecklenburg-Strelitz. These two Grand Duchies have only partial income taxes which are practically similar, and are based upon laws of 1903 and 1905. Separate taxes are levied on agriculture, rent, trades, salaries, pensions, industries, profits of scientific and artistic pursuits, wages of labor and interest on investments. The tax on salaries and occupations

(*Besoldungs- und Erwerbsteuer*) has a graduated scale by which incomes of from 200 m. to 300 m. are taxed one mark; 300 m. to 400 m. one mark and a half and so on. The tax increases one-half mark for each 100 m. until 900 m. of income is reached. From 900 m. to 7,500 m. the amount of income is increased 100 m. for each grade, while from 900 m. to 1,500 m. of income the tax advances by accretions of one mark; from 1,500 to 2,100 m. one mark and a half; from 2,100 to 3,000 m. two marks; and from 3,000 to 7,500 m. two and one-half marks for each grade. From 7,500 m. to 10,000 m. the rate of tax is 2 per cent; from 10,000 m. to 20,000 m. $2\frac{1}{4}$ per cent and above 20,000 m. it is fixed at $2\frac{1}{2}$ per cent. The budget estimates for 1908 showed the yield of the tax to be 848,100 m. (\$201,848) for Mecklenburg-Schwerin and 155,700 m. (\$37,057) for Mecklenburg-Strelitz.

Oldenburg, is a recent accession to the income-taxing states, as it operates under laws passed in 1906 and 1908. The normal scale of rates proceeds from a tax of one mark or one-fourth of one per cent for the lowest grade of income (400 m. to 450 m.) to 5 per cent on incomes of 37,000 m. or more. The steps of the progression as to incomes are 50 m. in the lower grades which increase to 500 m. in the higher grades. The estimated yield of the tax for the year 1908 was 2,630,000 m. (\$625,940) which was 45 per cent of all taxes raised.

Reuss (Older Line) is classed among the states which have only a partial income tax, as income from real estate within the principality is not taxed. While the law of 1893 describes it as a "general" (*allgemeine*) income tax, its application is limited to certain sources which are

enumerated in the law. The table of rates furnishes simply a progressive scale of units, which can be uniformly multiplied by whatever sum is necessary to produce a given amount. For example, in 1908, the actual tax consisted of nine times the amount given in the table for each grade. The scale extends from 3 pfennige (three-fourths of one cent) for incomes of from 15 to 30 mark (\$3.57 to \$7.14), which would be equivalent to one-fifth of one per cent, to 44 m. for incomes of from 11,250 m. to 12,000 m., or about 0.3 per cent. From this point upward 5 m. is added to the tax for each additional 1,000 m. of income. This operates to increase the rate so slowly that it would scarcely reach one-half of one per cent at 1,000,000 marks.

The amount of the tax in 1908 was 584,400 m. (\$138,087) which constituted 81 per cent of all the taxes raised. It is somewhat remarkable that this Lilliputian state with a population of only 70,000 and an area less than two-thirds that of Chicago, raises a larger annual tax upon income than has ever been attained by any of the great states of the American Union, in time of peace, from state income taxes!

Reuss (Younger Line) raises an income tax under a law of 1898 in substantially the same manner as the preceding state, except that *all* income is assessed, and the rates are slightly higher. The taxes on the three lowest grades are not collected by the state, but only locally. The scale for the state tax, therefore, begins at the fourth grade (which is from 550 m. to 650 m.), at 30 pfennige and is increased in the higher grades (over 102,000 m.) one-third of one per cent for each 3,000 m. of income. This state is notable for raising a larger proportion of its

taxes by the income tax than any other German state, or, so far as I am aware, any other country—the proportion contributed by the income tax being 84.11 per cent.

Saxony. The system of income taxation in force in Saxony is of special interest and importance; first, because it was one of the earliest adopted in Germany and therefore served as a model for many other German provinces; and second, because the amounts collected by it are relatively very large. For example, Saxony has a population only two-thirds as large as that of Bavaria, but it collects more than ten times as much income tax. The amount collected *per capita* in Saxony is nearly twice as great as in Prussia and nearly double the average for all the other German provinces.

The Saxon income tax law may be traced back to the business and personal tax (*Gewerbe- und Personalsteuer*) of 1834, which was an attempt to levy a graduated tax upon incomes. Although the law was improved somewhat by the changes made in it in 1845 and 1850, it was found to be poorly adapted to a country which was making such rapid progress financially. A revisory commission was appointed in 1868 and the result of several years of investigation and legislative debate was the adoption of the general income tax law of 1874, which went into effect in 1877. The first levy of the tax was considered experimental, but was so successful that a new law was passed in 1878, which, while it has been amended frequently in minor particulars, is, in its main outlines, the same as the law of 1874.

The table of rates is very long, as there are 120 classes or grades before 102,000 m. of income are reached. The rates are not percentual, but are fixed amounts and are called the normal tax. If in preparing the budget it

should appear that these rates would produce more tax than is needed they are uniformly reduced by one-tenth or more. If, on the other hand, they will not raise a sufficient sum they are increased by *Zuschlaege*, or additional rates, which are quite independent of the regular supplementary *Ergaenzungssteuer*.

The general effect of the normal rates may be summarized as follows:

Incomes under 400 m. are exempt.

"	of 400 to	500 m.	(\$ 119)	pay	1 m.	say	0.2½%
"	"	1,000 "	(\$ 238)	"	10 "	"	1. "
"	"	2,800 "	(\$ 666)	"	56 "	"	2. "
"	"	5,400 "	(\$ 1,285)	"	180 "	"	3. "
"	"	10,000 "	(\$ 2,380)	"	354 "	"	3½ "
"	"	32,000 "	(\$ 7,616)	"	1,280 "	"	4. "
"	"	70,000 "	(\$16,660)	"	3,150 "	"	4½ "
"	"	100,000 "	(\$23,800)	and upwards	pay	5.	"

Among the deductions allowed are 50 m. for each child from 7 to 14 years old providing the parent's income does not exceed 3,100 m. (\$738) and in case there are three or more dependents in the family the deduction must amount to at least one grade. For taxpayers whose total income does not exceed 5,800 m. (\$1,380) an abatement, not to exceed three grades, may be made in the following cases:

a) When the support of children or indigent relatives involves a burden of such a nature as to seriously affect the standard of living.

b) When long continued illness or accidents operate to decrease wage-earning ability.

The basis of assessment of income is:

a) For land and house property—

The rent of the preceding year, less deductions, except income from agriculture which is on an average of three years;

b) For invested capital—

Rate of interest at time of making return subject to certain special provisions ;

c) For wages, salaries, fees, etc.—

Amount for current year ;

d) For trade, industry and gainful occupation—

Average of three years.

It may be mentioned, in passing, that most of the other German states follow the same plan.

There is a supplemental tax (*Ergaenzungssteuer*) at the same rate and in substantially the same form as that of Prussia, except that incomes under 10,000 m. are exempt as is all property subject to the land tax. For investments yielding 4 per cent, this supplementary tax would be equivalent to a tax of $1\frac{1}{4}$ per cent on the annual income.

As to financial results, the amount collected in 1902 was \$8,677,756, which constituted about three-fourths of all the direct taxes for that year. The amount of income assessed was \$544,247,232. The whole number of assessments was 1,785,471, or 42.3 per cent of the whole population and 4,719 corporate bodies. Of this number, however, 186,590 persons were exempted on the ground that their incomes did not exceed 400 m. and 2,180 corporations as not being within the law, so that the number of actual taxpayers was only 26 per cent of the total population (4,202,216).³

³. The report of the tax office of the city of Chemnitz in Saxony for the year 1908, is very complete and exhibits some interesting results. Out of a population of 275,000 people there were 111,381 who were assessed for incomes of more than 400 marks. It thus appears that the income tax was paid by more than 40 per cent of the population, a larger proportion than in any other city in the world, so far

The estimated levy for 1908 was 51,575,000 m. (\$12,274,850), which is the largest amount of income tax raised by any state in Germany, except Prussia.

Saxe-Altenburg. The taxation of incomes is based upon laws of 1896, 1899 and 1901. The scale of rates rises from about one-third of one per cent on incomes of 60 m. (15) up to 4 per cent on incomes of over 18,000 m. (\$4,284) from which point it is proportional. The exemption is only 60 m. for "juridical persons" (corporations), foreign artisans and those whose incomes arise from landed property or state salaries or pensions. For all other persons the exemption includes the first two grades, or up to 450 marks.

A peculiarity of the taxation of limited liability companies is that they are taxed on only one-half their profits.

as we are able to learn. A possible explanation is that, as Chemnitz is a great manufacturing city, a very large proportion of women and children receive incomes of more than 400 m.

The classification of the incomes shows that there were

36,461	persons	who	had	incomes	between	400	m.	and	800	m.
25,941	"	"	"	"	"	800	"	"	1,100	"
27,068	"	"	"	"	"	1,100	"	"	1,600	"
11,625	"	"	"	"	"	1,600	"	"	2,500	"
3,615	"	"	"	"	"	2,500	"	"	3,400	"
2,693	"	"	"	"	"	3,400	"	"	4,800	"
1,238	"	"	"	"	"	4,800	"	"	6,300	"
671	"	"	"	"	"	6,300	"	"	7,800	"
600	"	"	"	"	"	7,800	"	"	10,000	"
848	"	"	"	"	"	10,000	"	"	20,000	"
247	"	"	"	"	"	20,000	"	"	30,000	"
112	"	"	"	"	"	30,000	"	"	40,000	"
262	"	"	"	"	over				40,000	"

From this table it will be seen that over one-half of the population, or 62,402 persons, had incomes of less than 1,100 m. (\$261.20) and 90 per cent had incomes of less than 2,500 m. (\$595).

The income tax yielded in 1908, \$1,025,442, which was an increase of over \$100,000 over the preceding year and amounted to an average of nearly ten dollars for each taxpayer. See Consular Report in Congressional Record, Vol. 45, p. 1116.

There are supplementary taxes which take the form of a trade tax and a *Kapitalrentensteuer*, or investments tax. These taxes are levied upon:

1. Persons deriving an income of not less than 700 m. from interest on capital, and having a total income of more than 1,800 marks.
2. All companies which are liable to the income tax.
3. All persons with incomes exceeding 2,100 m. derived from trade or investments.

The trade tax is levied on 4 per cent of the capital invested in business without regard to the profits; the investments tax is levied on income without regard to capital. The table of rates for these taxes exhibits a curious double progression which is accomplished in the following manner:

Income from Trade or Invest- ment Marks	Tax when income below 6,000 M. Marks	Tax on income over 6,000 M. and under 18,000 M. Marks	Tax on income over 18,000 M. Marks
200 to 300	2	3	4
* " *	*	*	*
1,000 " 1,200	10	15	20
* " *	*	*	*
2,000 " 2,200	20	30	40
* " *	*	*	*
3,000 " 3,300	30	45	60
* " *	*	*	*
7,000 " 8,000	70	105	140
* " *	*	*	*
Each additional 1,000	10	15	20

It will be noticed that the rates in the first column are two-thirds of those in the second and those in the second three-fourths of those in the third and it is evident that the taxation of each grade must stand by itself as independent of those below it.

The levy made in 1907 for the period 1908-1910, provides for dividing the tax of each year into eleven monthly payments.

Saxe-Coburg. Under the old law of 1874 and the later one of 1900, this portion of the Duchy of Saxe-Coburg-Gotha, has a combination of the class tax and the income tax. There is a progression of 18 grades with basal rates rising from one-tenth of one mark to five marks. These rates cannot be increased more than 16 fold. Persons having less than 2,400 m. of income are assessed by the class tax, while those having more are subject to the income tax.

Saxe-Gotha is operating under a general income tax law passed in 1902 and revised in 1908. Incomes under 300 m. are exempt and the scale of rates rises from 0.02 per cent for 300 m. to 3.7 per cent for 10,000 m. and reaches nearly 5 per cent at 100,000 m. There is the usual supplementary tax, on the Prussian model, with the difference that it does not apply to incomes under 5,000 marks.

Saxe-Meiningen. The progressive income tax in force in this Duchy was adopted in 1890. It differs from most of the other states in being percentual. There is an exemption of 600 m. from which point the rates rise from 0.8 per cent to 4 per cent which is the rate for 33,000 m. or more. A special feature of the law is the provision requiring persons who have made no declarations and have been assessed by officials for less than their true income, to notify the officials of that fact. A similar law is in force in the three free cities of Lubeck, Hamburg and Bremen. There is no supplemental tax.

Saxe-Weimar. The income tax law contains no tariff, but simply defines taxable income and leaves the tariff to be fixed by biennial laws. According to the law for 1908-1910, the rate begins with 3.60 m. for incomes

of 500 to 600 m. (0.72% to 0.6%) and reaches 4 per cent for incomes of 30,000 m. and over. There is no supplemental tax and under the new law the amount of exemptions is 500 marks.

Schaumburg-Lippe. In this principality, by the laws of 1901-4-5 (which are based on the Prussian law) the rates begin with 4.20 m. for incomes of 450 m. to 600 m. (0.93% to 0.7%) and reach 4 per cent at 100,000 m. For sums above 100,000 m. the rate is 4 per cent on the lower amount in each grade and, of course, somewhat less for the higher amount. The exemption is 450 m. and there is no supplemental tax.

Schwarzburg-Rudolstadt. Under the law of 1902, as amended in 1908, incomes pay a monthly rate of 5 pf. (1¼ cent) if under 350 m.; 10 pf. for 350 m. to 400 m.; 54 m. for 1,800 to 20,000 m., and 0.3 per cent for larger sums. It will be seen that the total amount paid in a year cannot exceed 4 per cent. There is no exemption and no supplemental tax.

Schwarzburg-Sonderhausen. The law of 1894 has been repeatedly changed, the last amendment being in 1904. The rates are very low beginning with one-third of one per cent for incomes of 300 m. to 400 m. and becoming proportional at 3 per cent for incomes exceeding 4,800 m. The exemption is 300 m. and there is no supplemental tax.

Waldeck. The income tax feature of the present law dates from 1893. The lower classes of incomes are subject to a class tax which is laid with reference to the oc-

cupation of the taxpayer, while the larger incomes (all over 900 m.) are subject to the general income tax. The rates represent the amounts payable monthly in the first three classes and range from 10 pf. to 5.50 m. Incomes of 3,000 m. and over, which constitute the fourth class, are subject to a super-tax of 3 per cent. annually on all excess above 3,000 marks.

Wuerttemberg is third in importance among the German states in the amount of income tax raised, unless the free city of Hamburg is counted as a state, in which case it would be fourth. In order to understand the relation of the income tax to the general taxing system it would be necessary to have a clear idea of the somewhat complicated features of the real estate tax, house tax, industrial tax and tax upon incomes from capital, wages, and occupations out of which it has grown. It was only after several years of agitation and debate that the two chambers of the Kingdom finally agreed upon the present income tax law which was passed August 8, 1903, and went into effect April 1, 1905.

The table of rates comprises 96 grades, beginning with a rate of 2 m. (0.4% to 0.3%) on incomes of 500 m. to 650 m. and increasing slowly to 5 per cent for incomes of 200,000 m. and over. For the first thirty grades the *incomes* increase by steps of 150 m. while the amounts of *tax* are successively 2-3-4-5-7-9-11-13-16-18-21-25-28-32-36-40-44-49-53-59-64-69-75-81-87-93 - 100-107-114 and 121 m., which last amount is the rate for the grade of income comprising 4,850 m. to 5,000 m. In the next ten steps the income increases at the rate of 200 m.

a step, and the amounts of tax are respectively 128-135-143-151-159-168-176-185-194 and 204 m. The last amount constitutes a 3 per cent rate on the lower amount in the grade of 6,800 m. to 7,000 m. The 4 per cent rate is reached at 30,000 m.; $4\frac{1}{2}$ per cent at 100,000 m.; $4\frac{3}{4}$ per cent at 150,000 and 5 per cent at 200,000 m. There is a general exemption of incomes under 500 m. (\$119) which does not apply to non-residents and cannot be considered as a deduction or abatement for incomes of a larger amount. There are also a large number of special classes of incomes exempted by reason of their military, educational, religious, benevolent, charitable or public uses.⁴

Special abatements, which are within the discretion of the Assessment Commission (*Schaetzungskommission*), may be allowed for:

- a) Education and support of children.
- b) Support of indigent relatives.
- c) Active service in the army and navy.
- d) Protracted illness.
- e) Severe accidents or financial reverses.

But such abatements are allowable only to persons whose annual income is less than 5,000 m. (\$1,190) and must not amount to a reduction of more than three grades. There is no provision for collection at the source nor for differentiation between earned and unearned income, except such as results from the "*Kapitalsteuergesetz*," sometimes called the "unearned income tax act,"

⁴. For example, a taxpayer having an income of less than 2,000 m. is entitled to an abatement of one grade for one or two children under fifteen years of age and of two grades for three or more. If his income is between 2,000 and 3,200 m. he is allowed one grade for three or more children.

which applies specifically to interest on capital, dividends of companies, annuities, etc., and is additional to the income tax, the industry tax and also to the supplementary tax, in case the same is voted by the legislature. It thus appears that a manufacturer or trader may be called upon to pay :

1.) The general income tax (*Die allgemeine Einkommensteuer*) as explained above.

2.) The tax on capital (*Kapitalsteuer*) of 2 per cent of profits from investments.

3.) The land tax (*Grundsteuer*), of 2 per cent of ground rental value of his premises.

4.) The house tax (*Gebaeudesteuer*), of 3 per cent of market value of the property.

5.) The trade or industrial tax (*Gewerbesteuer*), fixed at 2 per cent of the actual yield of the capital invested (but not income from personal services).

6.) The ordinary local or communal taxes.

As a fiscal measure the income tax in Wuerttemberg is considered a success. In the first year of its operation it yielded two-thirds of all the direct taxes. The budget of 1908 called for 18,000,100 m. (\$4,284,024) and, for the levy of 1909-10, it is proposed to raise the rates about 12 per cent.

Bremen, Hamburg, Lubeck. While the systems of income taxation in these free Hanseatic cities belong rather in the domain of municipal than of state taxation, they are to some extent a combination of the two, and it would require a very careful analysis to draw the line clearly between them.

The income tax laws of Bremen were passed in 1902 and 1905. The rates are fixed yearly at a certain multiple

of the unit or basal rates, and range from 1 m. (0.11% to 0.1%) for incomes of 900 m. to 1,000 m., to 1.20 per cent for incomes of over 200,000 m. These rates are reduced 50 per cent for the suburban districts. The tax in 1908 amounted to 7 units, or sevenfold the basal rates.

The Hamburg income tax law dates from 1903 and is notable in that the amount of tax collected by it *per capita* is much higher than in any of the other German states, being, in 1908, 43.98 m. (\$10.50). It should be remembered, however, that in this, as in the other free cities, the amount includes local and state taxes. There is a unital rate which begins with one mark or one-ninth of one per cent for incomes of 900 m. to 1,000 m., reaches one per cent at 30,000 m. and 1.20 per cent at 200,000 m. The usual tax is 6 times these rates. The budget for 1908 provided for a levy of 38,481,000 m. (\$9,158,478). It was estimated in 1900 that about one-fourth of the population had incomes of less than 900 m. and that the average income of such persons was 500 marks. Lubeck has had an income tax since 1889. The rates are progressive and percentual rising from two-thirds of one-per cent for 600 m. to 8 per cent for 40,000 m. and over. In this city, as also in Hamburg, there is no penalty for failing to make a declaration of income.

SUMMARY.

The following table will serve to show the relative importance of the income taxes mentioned in this chapter :

Kingdom, Duchy, etc.	Income Tax 1908 Marks	Per cent of total tax	Income Tax per capita	
			Marks	Dol. Cts.
Alsace-Lorraine	1,900,000	5.42	1.05	.25
Anhalt	2,415,000	63.93	7.36	1.74
Baden	15,600,500	35.90	7.76	1.84
Bavaria	4,930,000	5.30	0.76	.18
Brunswick	3,219,600	59.08	6.63	1.58
Hesse	10,860,000	54.37	8.98	2.14
Lippe	720,000	60.14	4.95	1.18
Mecklenburg-Schwerin	848,100	19.65	1.36	.42
Mecklenburg-Strelitz	155,700	27.10	1.50	.36
Oldenburg	2,630,000	45.	5.99	1.42
Reuss, Older Line.....	584,400	80.96	7.77	1.85
Reuss, Younger Line.....	1,100,000	84.11	7.61	1.81
Saxony	51,575,000	73.31	11.44	2.72
Saxe-Altenburg	1,278,000	61.78	6.19	1.47
Saxe-Coburg-Gotha.....	1,645,000	71.30	6.79	1.62
Saxe-Meiningen	1,330,000	65.44	4.95	1.18
Saxe-Weimar	3,104,000	80.96	8.	1.90
Schaumburg-Lippe	235,000	72.62	5.22	1.25
Schwartzburg-Rudolstadt ...	461,500	62.52	4.76	1.13
Schwartzburg-Sondershausen.	504,900	70.59	5.93	1.41
Waldeck	252,600	61.62	4.27	1.02
Wuerttemberg	18,000,100	43.56	7.82	1.86
Bremen	10,677,000	59.66	40.53	9.66
Hamburg	38,481,000	57.56	43.98	10.47
Lubeck	2,910,000	60.96	27.49	6.54

It should be borne in mind that the amounts of income tax given in the foregoing table are only approximate and subject to deductions for cost of collection.

The average per capita tax for the twenty-five states is \$2.28, which is more than double the average amount in countries having income taxes generally. Of the twenty-five states mentioned, there are five which have only partial income taxes. These are Bavaria, Alsace-Lorraine, the Mecklenburg Grand-duchies and Reuss, Older Line.⁵

⁵. The principal sources of information which have been relied on in preparing the foregoing chapter are Handwoerterbuch der Staatswissenschaften, dritte Auflage, Band III (1909); Régime Fiscal des Valeurs Mobilières en Europe, (1901); Reports from his Majesty's Representatives Abroad respecting Graduated Income Taxes in Foreign States, (1905); Seligman, Progressive Taxation in Theory and Practice, 2d Ed.

CHAPTER VIII.

GREECE, HAWAII, HOLLAND, HUNGARY, INDIA, ITALY.

GREECE.

It has seemed worth while to make mention of this country not because it has had any experiences with income taxes in modern times,¹ but because the principles of income taxation are supposed to have originated with the Athenians. The statement is often made that the income tax was first used by the Greeks in the time of Solon (596 B. C.). This assertion is apparently based upon a much quoted passage in Montesquieu's *Spirit of the Laws*;² but the tax there referred to was rather in the nature of a "produce tax," such as was levied in early

¹. The only levies which resemble income taxes are the five per cent tax on the net profits of joint stock companies, the *patentes* or business licenses and the special graded salary tax on the employees of various corporations, which last is as follows:

On salaries of	500 to	3,000	drachmas	the tax is	2%
"	"	"	3,001 "	5,000	" " " 3%
"	"	"	5,001 "	7,000	" " " 4%
"	"	"	7,001 "	12,000	" " " 5%
"	"	above	12,000	"	" " " 6%

(The Grecian drachma is equivalent to the French franc, or 19.3 cents.)

². "On avoit divisé à Athènes les citoyens en quatre classes. Ceux qui retiroient de leurs biens cinq cents mesures de fruits liquides ou secs payoient au public un talent; ceux qui en retiroient trois

Colonial days in this country. So far from its being the first income tax there is reason to believe that there were levied, in Egypt, a thousand years earlier, certain taxes which corresponded more closely to the modern income tax than did the law of Solon's time. Among the duties of the Grand Vizier of Egypt in 1580 B. C. the collection of income taxes was mentioned.³ Certain public officials, as for example the judges, were required to pay a percentage of their incomes to the state.⁴ According to Aristotle a general income tax upon all employments was levied by King Tachus in Egypt at the instance of Chabrias.⁵

It cannot be denied, however, that the Greeks understood the principles of the progressive income tax and that laws were formulated by them with a view to the collection of such taxes. As early as 380 B. C. the people were divided into four classes. The rate of taxation was one per cent on the lowest class, composed of all those with an income below 25 minas (about \$427); five per cent on the second class, with incomes from 25 to 50 minas; ten per cent on the third class, with incomes from 50 to 100 minas; and twenty per cent on the fourth class,

cents mesures devoient un demi-talent; ceux qui avoient deux cents mesures payoient dix mines ou le sixième partie d'un talent; ceux de la quatrième classe ne donnoient rien." At Athens the citizens were divided into four classes. Those who realized from their estates 500 measures of dry or liquid fruit paid a tax of one talent; those who realized 300 measures paid half a talent; those who had 200 measures paid 10 minas or one sixth of a talent, and those of the fourth class paid nothing. Montesquieu, *De l'Esprit des Loix*, Book XIII, Ch. VII. See also Boeckh, *Public Economy of the Athenians* Book IV, Ch. 5. pp. 639-665. (Am. Ed.)

³. Breasted. *Ancient Records*, Vol. 2, par. 706.

⁴. Breasted. *Ancient Records*, Vol. 2, par. 716, and Vol. 5, page 31, Note.

⁵. Bancroft. *Ancient Greece*, p. 143.

with incomes above 100 minas.⁶ But even at that early day the tax was looked upon as a sort of emergency, or war tax, and there is some doubt whether it was actually put into operation.⁷

HAWAII.

The system of income taxation which has been in force in Hawaii since 1901, is of special interest, not only because the territory is within the jurisdiction of the United States, but also for the reason that the law is modeled closely after the United States Law of 1894, which was held to be unconstitutional.

The Hawaiian law provides for a tax of two per cent upon all incomes, including those of corporations, and would be a strictly proportional tax were it not for the exemption of \$1,500,⁸ which applies to all incomes regardless of the amount. The progressive effect which results from the exemption is shown by the fact that a taxpayer with a total income of \$3,000 would pay one per cent of his whole income, while the recipient of \$100,000 would pay a tax of 1.97 per cent. Corporations are taxed on the net profit or income above actual operating and business expenses. As compared with the corporation tax law of the United States, the following provision for computing the net income of corporations will be of interest:

⁶. Seligman. *Progressive Taxation*, etc., p. 12, citing Rodbertus *Untersuchungen zur Geschichte der roemischen Tributsteuer seit Augustus* in Hildebrand's *Jahrbuecher fuer National-Oekonomie und Statistik*. Band VIII, 1867, pp. 453, *et seq.*

⁷. *Dict. de l'Économie Politique*, Revenu.

⁸. The exemption was \$1,000 until changed by Act 64, Laws of 1909, to the above mentioned sum.

The net profits or income of all corporations shall include the amount paid or payable to, or distributed or distributable, among, the shareholders from any fund, or used for construction, enlargement of plant, or any other expenditure or investment, paid from the net profits, made or acquired by said corporation, during the taxation period next preceding, whether that period be the first taxation period or any succeeding period.⁹

Persons who receive dividends upon stock in corporations which have paid the income tax, are not required to include such dividends in their returns of income. All persons and corporations are required to make returns and if they fail, they may be summoned by the district assessor to appear before him and produce the books of accounts relating to their business.¹⁰ Appeals may be taken in the same manner as from property tax assessments; but notice of appeal must be given, stating the grounds of the appeal, and making a deposit of the costs.

Act 33, Laws of 1909, provides that the amounts collected by the income tax shall be used as follows:

Three fourths of said fund is hereby appropriated for and shall be used for the encouragement of immigration to the Territory of Hawaii, in aid and development of the agricultural resources and conditions, * * * and one fourth of said fund is hereby appropriated for and shall be used for the development, conservation, improvement and utilization of the natural resources of the Territory.

A peculiar feature of the Hawaiian taxing system is the provision for *County* income tax which is found in Chapter 26 of Act 31, Laws of 1903.

⁹. Section 1281 Revised Laws of Hawaii, as amended by Section 4, Act 87, Laws of the Territory of Hawaii, Session of 1905, p. 195.

¹⁰. Revised Laws of Hawaii, Section 1278, *et seq.*

The tax is levied for "annual County revenue purposes" at the rate of 2% on all "gains, profits and income over eighteen hundred dollars" and full provision is made for the assessment and levy of the tax by County officials. All persons having incomes of more than \$600 a year and all corporations, are required to make returns of their incomes. The Board of Supervisors is authorized to add two hundred per cent to the just valuation of the income of any taxpayer who has made a false or fraudulent return.

The total revenue of the Territory of Hawaii for the fiscal year ending June 30, 1908, was \$2,669,748.32, and of this sum \$1,880,847.83, or 70%, was raised by taxation. The place which the income tax fills in the budget may be seen by the following summary of the principal items of State taxation for the year 1908:¹¹

Real property tax.....	\$640,051
Personal " "	635,265
Income " "	266,241
School " "	97,846
Road " "	97,842
Poll " "	49,144
Carriage " "	28,741
Inheritance " "	21,430
Insurance " "	16,116
Penalties	14,939
Sundry minor taxes.....	13,232

It thus appears that the income tax yielded nearly 10 per cent of the total revenue and 14.15 per cent of the amount raised by taxation and tax penalties. Of the penalties mentioned above, the amount collected in connection with the income tax was \$2,758. The cost of collecting all taxes, including income tax, was 3.64 per cent.

¹¹. Report of the Governor of Hawaii, Sept. 19, 1908, in Reports of the Department of the Interior of the United States, Vol. II, pp. 342-344.

The yield of the income tax has been as follows :

1902.....	\$286,630.20
1903.....	202,526.44
1904.....	170,511.71
1905.....	155,978.87
1906.....	391,366.65
1907.....	187,687.91
1908.....	266,241.74

The number of income taxpayers is not disclosed by the statistics, but as more than half the population (95,000 out of 170,000) are orientals, it is probable that the number is relatively small.

In 1908, a legislative committee was appointed to investigate the income tax law with a view to its revision, but they did not recommend any radical changes.

HOLLAND.

The system of income taxation which is in force in the Netherlands is deserving of special study for the reason that it is based largely upon scientific theories and investigations. It has often happened in other countries, and particularly in the United States, that income tax laws have been formulated by men who had little knowledge of the subject; but the Dutch law was drawn by a man who presented the unusual combination of a successful man of affairs, a noted financier and a political economist of international reputation. In 1891 and 1892, the late Dr. N. G. Pierson,¹² while Minister of Finance

¹². Nicholas Gerard Pierson was born in Holland in 1839. After a trip to the United States he published, in 1859, a book on the American Banking System. He was made a director in the Bank of the Netherlands in 1868, and about that time he published a large book on Dutch Colonial Policy. In 1877 he was called to the chair of economics in the University of Amsterdam. This position he held until 1885, when he was made President of the Bank of the Netherlands. He became Minister of Finance in 1891 and Prime

for the Netherlands, prepared two laws which constitute the present system. The first was the *Vermoegensbelasting*, or property tax, which was passed September 27, 1892, and the second the *Belasting op bedrijfs en andere inkomsten* (tax on incomes from business, etc.), or business tax, which went into effect October 2, 1893.

The objects sought to be obtained by these laws were:

1. To tax incomes derived from industries and salaries, that is from personal exertion, at a much lower rate than income received from investments—say, in the ratio of about 3 to 5.

2. To adopt a system of graduation which should be effected in two ways:

- a) By deducting from every income a considerable exemption which has the effect to produce a strong progression in the lower grades and a weak one in the higher,

- b) By strengthening the progression where it becomes too slight, by increased rates for higher incomes.

It is unfortunate that the plan devised is quite complicated and to compass any adequate explanation of it within a brief space is a difficult task. Under these circumstances we cannot perhaps do better than to quote an explanation which Dr. Pierson himself has given.¹³

Minister in 1897, which latter position he held for four years. He was a voluminous writer on political economy and banking, his most important work being his *Leerboek der Stathuishoudkunde*, the first volume of which has been translated into English under the title "Principles of Economics." See *The Economic Bulletin*, Vol. III, No. 1 (March, 1910) p. 10.

¹³ The Income Tax in Holland. *Economic Journal*, Vol. 17, Sept. 1907, p. 417. See also Cohen-Stuart, A. J. Progressive Taxation in Holland in *Economic Journal*, Vol. VIII (1898), pp. 325-332, and Consular Report in *Congressional Record* Vol. 45, p. 1112.

We have in Holland not one single income-tax; we have two taxes which combined are intended to tax the whole income. The first is the *Property Tax*; it taxes the value of all the property that a person possesses beyond a certain amount (fl. 10,000) (\$4,020) at a certain rate—1 $\frac{1}{4}$ florins for every 1,000 up to 200,000 florins; the remainder is taxed at the rate of 2 florins in every 1,000. It follows that the owner of property worth

		Pays		Per Mille	
50,000 fl.	(\$ 20,100)	50 fl.	(\$ 20.10)	or 1,000	=0.1 %
100,000 "	(40,200)	112 $\frac{1}{2}$ "	(45.22)	" 1,125	=0.11 %
200,000 "	(80,400)	237 $\frac{1}{2}$ "	(95.45)	" 1,1875	=0.118%
400,000 "	(160,000)	637 $\frac{1}{2}$ "	(256.27)	" 1,5937	=0.159%
1,000,000 "	(402,000)	1,837 $\frac{1}{2}$ "	(738.67)	" 1,8375	=0.183%
12,000,000 "	(4,824,000)	23,837 $\frac{1}{2}$ "	(8,592.67)	" 1,9864	=0.198%

The second tax is called the *Tax on industrial and other revenues*, to which all incomes are subject which do not fall under the property tax. In the case of a mixed income—income from property used by its owner for commercial or industrial purposes—the law assumes that 4 per cent of such capital has been taxed already by the property tax, so that only the remainder falls under the other tax. To put it briefly: let the income which a man draws from his business be 10 per cent of the capital invested; then the tax on industrial and other revenues will only take account of so much of these 10 per cent as remains after a deduction of 4 per cent, which means that the industrial income will be taxed as if it amounted only to 6 per cent of the capital invested.

Both taxes are graduated, and the graduation has been arranged in such a manner that industrial incomes are taxed at a higher rate when the recipients are also owners of property. A man for instance, receiving an annual salary of 10,000 florins, will pay more if he is also a capitalist than he will pay if he has no other income besides these 10,000 florins. It is unnecessary to dwell on the rather complicated provisions which have been framed for this purpose, for one of the chief motives, which led the Government to make the proposal I shall presently explain, was to simplify this part of the legislation. It is extremely difficult to bring two graduated taxes, each of them taxing only a part of the income, so in harmony with each other that their united work-

ing is the same as if they formed only one tax. The object, indeed, has been attained by the Dutch law, but it must be acknowledged that this could only be done by reducing the graduation (practically speaking, for there are separate scales for the minor incomes) to two stages. In the property tax there is no higher *rate* of taxation above the 2 florins for every 1,000; this rate is applied to all property exceeding 200,000 florins, however large the exceeding portion may be. In the tax on industrial incomes the same principle has necessarily been adopted. Of course, it would have been mathematically feasible to increase the number of stages indefinitely, but then the law would have been encumbered with further complications which would have rendered it a mystery to the ordinary reader.

The property tax is levied according to the value of the property at the commencement of the fiscal year and the tax on incomes in accordance with the probable income during the current fiscal year. Incomes for temporary work alone are brought under the income of the fiscal year following that in which they are made.

In computing business incomes the net product of annual income is taxed in so far as it consists of:

1. Profits, gains, earnings and emoluments;
2. Temporary allowances, half-pay allowances, pensions, annuities, grants due, expenses allowed for board and lodging and allowances due and to become due from non-residents who are not assessable.

In calculating the net amount of profits and losses deductions may be made as follows:

- a) Interest from capital employed in business, at 4 per cent unless any other rate is mentioned, in so far as the revenue from such capital is not part of the professional income.

b) Cost of maintaining and repairing objects exclusively used for the purpose of trade or business.

c) Salaries, wages, rents of warehouses, stores, offices and other premises, with all necessary expenses of carrying on the trade or business from which the income is derived.

f) Debts and uncollectable credits.

g) Wear and tear and general depreciation.

h) Insurance premiums and payments made to charitable and benevolent funds and to pensions for families of employees and shares and profits granted to them.

In reaching the basis of the *property* tax (*Vermogensbelasting*) the taxpayer is charged with all of his own and his wife's property and four fifths of that of which he has the use; but this does not include furniture, clothes, works of art, jewels, life insurance policies, and such other personal belongings as are not used commercially.

As to the valuation of real estate, there is the somewhat curious provision that the owner may usually choose which of two methods he will adopt. He may elect to have it valued—

1. At twenty times the assessed *annual* value as determined by the law for taxing land and buildings, with certain deductions for State ground rents, "*centimes additionels*" and amounts of receipts from mortgages and other rents; or

2. At the estimated selling value. He must, however, apply the same method to all of his real estate; and building ground (exclusive of gardens and parks) must

always be assessed at its market value when such value exceeds one florin per centiare.

Certain incomes, such as those derived from agriculture, horticulture, forestry, arboriculture, bulb-culture, cattle breeding, land and peat exploitation, quarries and mines are practically exempt from taxation, it being assumed that the income is 4 per cent and, as that amount is exempt, there is nothing left to tax.

Co-operative Societies and Joint Stock Companies are in a class by themselves and pay a uniform tax of $2\frac{1}{2}$ per cent of the profits realized.

The following condensed statement of rates is the arrangement adopted by Seligman. The American equivalent for florins¹⁴ as also the percentages have been added.¹⁵

Table A.

Incomes from Labor			Tax in Florins	Percentage (on lower am't)
Fl.	650 (\$261)	to fl. 700	1	0.15
"	700 (281)	" " 750	2	0.28
"	750 (301)	" " 800	2.75	0.36
"	800 (321)	" " 850	3.50	0.43
"	850 (342)	" " 900	4.25	0.5
"	900 (362)	" " 950	5	0.55
"	950 (382)	" " 1,000	5.75	0.6
"	1,000 (402)	" " 1,050	6.50	0.65
"	1,050 (422)	" " 1,100	7.25	0.69
"	1,100 (442)	" " 1,150	8	0.72
"	1,150 (462)	" " 1,200	8.75	0.76
"	1,200 (482)	" " 1,250	9.50	0.79
"	1,250 (502)	" " 1,300	10.25	0.82
"	1,300 (523)	" " 1,350	11	0.84
"	1,350 (543)	" " 1,400	11.75	0.87
"	1,400 (563)	" " 1,450	12.50	0.89
"	1,450 (583)	" " 1,500	13.25	0.91
"	1,500 (603)	" " 1,600	14	0.93
"	1,600 (643)	" " 8,200	14+2%	on surplus over fl. 1,500
Over fl. 8,200 (\$3,300)			148+3.20%	on surplus over fl. 8,200

¹⁴. The Dutch florin is equal to 40.2 cents of American money.

¹⁵. Seligman, *Essays in Taxation*, 2nd Ed., pp 328, 329, *Progressive Taxation*, etc., 2nd Ed., p. 80.

Table B. (for those liable also to the property tax)

When property amounts
to 13,000 fl. or 14,000 fl.

Income	Tax (In florins)
250- 300	2
300- 350	2.75
350- 400	3.50
400- 450	4.25
450- 500	5
500- 550	5.75
550- 600	6.50
600- 650	7.25
650- 700	8
700- 750	8.75
750- 800	9.50
800- 850	10.25
850- 900	11
900- 950	11.75
950-1,000	12.50
1,000-1,050	13.25
1,050-1,150	14
Over 1050	14+

2 florins for every hundred florins on surplus over 1,050 fl. But if the income, together with 4 per cent on the taxable property, exceeds 8,150 fl., a tax of 1.20 per cent is payable on the excess.

When property varies between 15,000 fl. and 200,000 fl.

Income	Tax (In florins)
250- 300	1.25
300- 350	2
350- 400	2.75
400- 450	3.75
450- 500	4.25
500- 550	5
550- 600	5.75
600- 650	6.50
650- 700	7.25
700- 750	8
750- 800	8.75
800- 850	9.50
850- 900	10.25
900- 950	11
950-1,000	11.75
1,000-1,050	12.50
1,050-1,100	13.25
1,100-1,200	14
Over 1,100	14+

2 florins for every hundred florins on surplus over 1,100 fl. But if the income, together with 4 per cent on the taxable property, exceeds 8,200 fl., a tax of 1.20 per cent is payable on the excess.

When property exceeds 200,000 fl., the tax is 3.20 fl. on every hundred florins income over 200 florins.

The exemptions are:

1. For professional incomes of persons not assessed for property tax..... 650 fl.
2. For professional incomes of persons who are assessed also for property tax..... 250 fl.
3. For property
 - a) a basal exemption of.....13,000 fl.
 - b) for incomes over 15,000 fl. and under 200,000 fl.10,000 fl.

The *administration* of the tax is controlled by elaborate regulations resembling in some respects the English

system. Among the special features of the law is the provision by which the income tax can be divided into five payments at intervals of two months. The property tax is payable one half November first and one half April first. Taxpayers are expected to make returns and upon their failure to do so, official returns are made for them and 25 per cent added. An appeal lies primarily to the Committee of Assessors and from that Committee to the Council of Appeal (*Raad van Beroep*), which latter body is composed of three members who are appointed, one by the States Deputy of the province, one by the District Court within whose jurisdiction the Council has its seat, and one by the Minister of Finance. Secrecy is required from the officials in regard to the contents of the returns. If the tax is not paid within the time specified the Receiver of Taxes who issued the demand sends a written warning requiring payment. If this is disregarded a second summons for the same period is issued after which a compulsory writ may be served and made executory by the justice of the peace of the district.

There are also local income taxes which were levied for many years before the State tax went into force. The system of exemption and progression was carried so far in some of the communes (*Gemeenten*) that the Government was compelled, in 1897, to prescribe certain limitations as follows:

In levying a capitation or other direct income tax, no revenues may be left out of calculation, nor be calculated or estimated under their real amount, except in so far as in the case of variable incomes a mean value out of two or more years may be computed.

The amount of the tax must be the same percentage for all incomes, after deduction from all incomes of a sum necessary for livelihood, equal for all incomes or varying only ac-

according to the construction of the family. Deviation from this rule is permitted if existing regulations or special circumstances make such deviation desirable, and on condition that the distribution of charges do not vary considerably from that which would be obtained by adhering to the said rule.

In Amsterdam incomes were divided into five classes; in the first two classes the rate was applied to one-fourth of the income; in the next two classes to one half and in the next to three fourths. In the town of Terneuzen, there were a large number of classes and the rate was percentual, the first class (300-399 fl.) paying one half of one per cent; the second (400-549 fl.) five eighths of one per cent and so on to the nineteenth class (7,000 fl.) which paid four per cent.¹⁶ In the Friesian Commune, Doniawerstal, the progressive feature is introduced by levying a uniform rate upon an increasing percentage of the income as shown below:¹⁷

Income	Portion taxed	Income	Portion taxed
200 fl.....	15%	1,000 fl.....	60%
250 ".....	20 "	1,200 ".....	65 "
300 ".....	25 "	1,400 ".....	70 "
400 ".....	30 "	1,600 ".....	75 "
500 ".....	35 "	1,800 ".....	80 "
600 ".....	40 "	2,100 ".....	85 "
700 ".....	45 "	2,400 ".....	90 "
800 ".....	50 "	2,700 ".....	95 "
900 ".....	55 "	3,000 and upwards.....	100 "

The place which the business or income tax fills in the Dutch system may be seen by the following statement of chief sources of revenue for 1905:

¹⁶. Seligman, *Progressive Taxation*, 2nd Ed., p. 81.

¹⁷. Reports from His Majesty's Representatives Abroad respecting Graduated Income Taxes in Foreign States. Misc. No. 2, 1905, p. 92.

Business income tax.....	4.24%
Property " ".....	4.73 "
Land tax	7.87 "
House tax	5.71 "
Excise	31.49 "
Succession (inheritance) tax.....	8.48 "
Stamp and registration tax.....	6.90 "
Import dues	6.65 "
Other revenues	23.95 "
Total.....	100 " 18

Of the business tax 72.18 per cent is paid by persons residing in the country; 2.88 per cent by non-residents and the remaining 24.94 per cent by corporations.

As showing the number of persons and amount of income in different classes in 1906-7, the following table may be of interest:¹⁹

Grade of Taxable Income	No. of Taxpayers	Income Taxed
600 fl. and above	368,774	514,064,000 fl.
1,500 " " "	81,701	269,172,000 "
3,500 " " "	18,248	137,252,000 "
8,000 " " "	4,091	69,277,000 "
20,000 " " "	769	31,217,000 "
50,000 " " "	144	13,400,000 "

The *financial results* for the year 1902-3 were that 306,582 taxpayers paid tax on business or professional income to amount of.....6,913,000 florins and 83,558 taxpayers paid property tax to amount of.....7,760,000 florins. Combining these two it appears that 390,140 taxpayers, being about 7 per cent of the population, paid 14,673,000 fl. (\$5,898,546), which would be about ten per cent of the total revenue for that year (144,049,347 fl.).²⁰

¹⁸. It should be stated that for the year 1906-7 an additional percentage (*opcenten*) of 10 per cent (of the tax) was added.

¹⁹. Bidragen tot de Statistiek van Nederland C. I. Statistiek der Rijksinkomsten over de jaren 1905 en 1906. (1908) p. LXXXIII.

²⁰. See Bidrag tot de Statistiek, etc. *op. cit.* p. XII and Table I, p. 2.

In 1906-7 the net business tax amounted to 8,508,516 fl. and the net property tax to 8,859,296.97 fl., or a total of 17,367,813 fl. (\$7,081,860.83), which was 41.87 per cent of the total direct taxes for that year.

In 1908 the income tax produced \$6,724,913.28, which was 9 per cent of the total revenues (\$73,583,-844.78).²¹

Java. This colony of the Netherlands levies an income tax which is modeled after that of the parent country. The yield of the income tax proper in 1909 was 4,230,000 Guilder (\$1,700,460), and of the "tax on trades" (*bedrijfsbelasting*) 4,858,500 Guilder (\$1,953,-117).

HUNGARY

The direct personal income tax constituted but one feature of the general scheme of fiscal reform adopted by the Hungarian government in 1909. As in Austria, the whole system is extremely complex and the taxation of incomes directly and indirectly is so interwoven and blended with other forms of taxation that it is hardly possible to give any intelligible account of it within a brief space.

There are six principal classes of direct taxes which may be summarized as follows: 1. ground (or real estate) tax; 2. classified house tax; 3. tax on capital, in-

²¹. I am indebted to Hon. Henry H. Morgan, United States Consul at Amsterdam, for these and other recent statistics.

terest, annuities, etc.; 4. produce duties (*Erwerbssteuern*) on net profits of such business enterprises as are liable to inspection by the public auditor; 5. general produce duties; 6. the income tax. All of these taxes are based, to a large extent, upon income. For example, the land tax is based upon 20 per cent of the "*cadastral*" (assessed) net profits; the house tax on 9 to 16 per cent of the gross profit from rentals; the capital tax on 5 per cent of gross profits and 2 per cent of certain annuities; the produce tax on varying percentages such as 4 per cent for income from the learned professions; 5 per cent and 7 per cent on mining enterprises and certain agricultural and industrial combinations; and 10 per cent on profits of limited liability companies.

The rates of the income tax proper are progressive. The progression is not percentual, but there is a great number of grades with a fixed tax for each grade. Thus incomes of from 800 to 900 crowns (\$162.40 to \$182.70) pay a tax of 5 crowns (\$1.00), which would be 0.62 per cent on the smaller amount and 0.55 per cent on the larger. The rate on incomes of from 900 to 1,000 crowns is 6 crowns; on 1,000 to 1,100, 7 crowns and so on until

at	2,000 crowns (\$ 406)	it reaches	20 crowns or 1%
"	5,600 " (1,288)	" "	112 " " 2 "
"	15,000 " (3,018)	" "	450 " " 3 "
"	48,000 " (9,744)	" "	1,920 " " 4 "
"	120,000 " (24,360)	" "	6,000 " " 5 "

Above 120,000 crowns the payments increase in such manner as to preserve the 5 per cent rate.²²

In the case of limited liability companies and trade unions dealing exclusively with industrial products the

²². Congressional Record, Vol. 45, p. 1108.

rate is uniformly 3 per cent upon all incomes over 15,000 crowns (\$3,045).

There is a supplementary tax upon incomes from salaries and pensions in excess of 7,000 crowns (\$1,421). The rates of this supplementary tax vary from 0.2 per cent to 16 per cent.

The law discriminates rather harshly against "absentee landlords," as there is a so-called absentee tax (*Abwesenheitssteuer*) which is levied at three times the regular rate on the incomes of such persons. As is usual in most European countries, the whole aggregate income of the members of a household is reckoned as a unit.

In computing incomes the following deductions are permitted: a.) Expenses incurred in acquiring, insuring and maintaining income; b.) business losses; c.) insurance; d.) indirect taxes; e.) legal payments and duties in connection with business operations; f.) wear and tear; g.) interest on debts.

The provisions for the administration of the tax are substantially similar to those in force in Austria.

INDIA.

The income tax of India has been in force since 1886, and bears some resemblance to that of England in so far as it divides all incomes into schedules, and makes provision for collection at the source. The graduation of the rate is so slight, ranging from 2 per cent to 2½ per cent, that the tax is substantially proportional.

Income is classified with reference to its sources into four categories which, with the rates, are as follows:

	Rate	Approximate Percentage
I. <i>Salaries and pensions</i>		
Less than 2,000 rupees (\$666.67), 4 pies in the rupee—	2	—2
More than 2,000 "	5	—2.5
II. <i>Profits of companies</i>		
On all net profits.....	5	—2.5
III. <i>Interest on securities</i>		
Less than 2,000 rupees.....	4	—2
More than 2,000 "	5	—2.5
IV. <i>Other sources</i>		
1,000 to 1,999 rupees.....	graded from 20 rupees on 1,000—	2
	to 42 " " 1,999—	2.1
2,000 rupees and upwards.....	5 pies in the rupee—	2.5

The exemption in the first category is 1,000 rupees (\$333.33). In the second category there is no exemption, but certain deductions from gross income are permitted. These deductions may be summarized as follows:

1. Repairs of tools of trade.
2. Insurance and rent of business premises.
3. Cost of repairs and renewal of business premises.
4. Wages paid.
5. Net losses.
6. Bad debts ascertained and written off for the first time during the year.
7. Interest on borrowed money invested in business.
8. Amount expended to make good depreciation of machinery or plant, but not to exceed 10%.

In the case of income from houses there may be deducted:

1. Rent or quit-rent paid by person assessed, but not taxes.
2. Insurance.
3. Cost of repairs.
4. Cost of collecting rent, not exceeding 6% of gross rental.

5. Interest payable to a mortgagee not in possession.

The exemption, in the case of the third category, is 1,000 rupees, which applies, as also in the first and fourth categories, only to persons whose income from all sources is less than that sum. Incomes of more than 1,000 rupees would pay in full. For example, an income of 1,200 rupees would be taxed on 1,200 rupees and not on 200. The incomes under the third category are collected for the most part at the source, and, in order to secure the benefits of the lower rates, the taxpayer can secure from the collector a certificate that his income does not exceed a certain sum. If this certificate shows that the total income from all sources is less than 1,000 rupees the person paying interest will make no deduction; if the income is more than 1,000 and less than 2,000 rupees, 2 per cent will be deducted from the interest on the securities and paid to the government. If no certificate is presented it is the duty of the person paying the interest to withhold the highest rate, that is $2\frac{1}{2}$ per cent, for the income tax. This would seem to be an improvement over the English system by which the highest amount is always withheld and the taxpayer is forced to make reclamation for any over-payment.

The results of the income tax in India have been fairly successful when the smallness of the rate and the poverty of certain districts are taken into consideration. The yield of the tax in 1906-7 was 21,171,639 rupees (\$6,869,138). The total amount of income assessed in 1906-7 was 850,500,000 rupees (\$283,500,000). The number of income taxpayers was 255,762, or 0.11 per cent of the total population of 231,899,507.²³ The cost of

²³. Consular Report Congressional Record, Vol. 45, p. 1110.

collection was 362,042 rupees (\$120,681) or 1.7 per cent. The officers who collect the income tax are salaried officials employed in connection with land revenue and general administration.

ITALY.

In the Florentine republic, as early as 1447, a progressive income tax was levied which came to be known as the *decina dispiacente*, or displeasing tax. The taxpayers were divided into fourteen classes and the rates levied on these classes varied from eight to fifty per cent. This method of taxation experienced many changes, being frequently dropped and restored until it was definitely abandoned in 1530.

The modern tax upon income of personal property (*imposta sui redditi della ricchezza mobile*) was introduced in Italy in 1864. As originally adopted the tax was for a fixed sum annually (30,000,000 lire), which sum was apportioned "repartitioned" on the various provinces; but this gave rise to so much complaint that, in 1866, it was changed to a definite percentage tax. The law experienced a radical revision in 1877. It was amended repeatedly in the eighties and, in 1894, to meet a deficit, the rate was raised from 13.20 to 20 per cent. The last revision was in 1907 and resulted in the promulgation of the *Nuovo regolamento per l'imposta sui redditi della ricchezza mobile*, or new law for the taxation of income from personal property.²⁴

²⁴. Handwoerterbuch der Staatswissenschaften, 3d Ed. (1909) p. 656.

The Italian system presents numerous analogies to the English income tax law, particularly in its divisions into schedules and the provisions for collecting taxes at their source. But it differs from the English plan, and indeed from that of most other countries, in that it does not tax incomes from real estate. For this reason it is often described as a "partial income tax." The other direct taxes are the real estate tax and the house tax which are not based on income, but on assessed valuations.

The rates have been gradually increased from 8 per cent in 1866 to the present tax of 20 per cent, which, however, does not apply to all incomes, as it is modified materially for certain classes by a very complicated system of abatements, exemptions and deductions.

The law of 1894 originally divided all incomes into four categories or schedules, numbered A, B, C and D, as in England; but it has been found convenient to subdivide the first schedule into two parts designated as A1 and A2, so as to differentiate two kinds of income from capital. Thus the schedules are:

A1. Interest and premiums of loans of *provinces* and *communes* and of companies based on guaranties and subventions of the government, and premiums of authorized lotteries, etc.; but the government debt proper is not included owing to the non-taxability of the securities into which it was converted.

A2. All other incomes arising from investment of capital, such as perpetual annuities, loans, bonds, etc.

B. Income resulting from combinations of capital and labor as in commercial and industrial enterprises.

C. Incomes arising wholly from personal exertion, as in trades and professions.

D. Wages, pensions and salaries paid by communes, provinces or the Government.

While the general rate is 20 per cent the only incomes subject to it are those embraced in schedule A1. As to the other schedules, the amount of tax is reduced by abatements as follows:

In Schedule A2 (interest on capital other than government securities) the tax is levied on only 30/40 of the income, thus reducing the rate to..15%

In Schedule B (mixed incomes involving capital and labor) the tax is levied on 20/40 of the income, reducing rate to.....10%

In Schedule C (wages from private employment) the tax is levied on 18/40 of the income, reducing rate to 9%

In Schedule D (wages from public employment) the tax is levied on 15/40 of the income, making tax equivalent to.....7½%

It will be observed that Schedule A refers wholly to income from capital; Schedule B to incomes produced by the combination of labor and capital; and Schedules C and D to incomes resulting wholly from labor.

Incomes in Schedules B, C and D which, after making the abatements above mentioned, are under 400 lire (\$77.20), are entirely exempt. As to incomes in the same schedules which are *not collected at source*, and which amount, after the abatements, to between 400 and 800 lire, there are deductions as follows:

Income		Deduction	
400 to 500 lire.....		250 lire	
501 " 600 "		200 "	
601 " 700 "		150 "	
701 " 800 "		100 "	

The lowest per cent of tax would therefore be reached by an income of 801 lire, which would be entitled: first, to an abatement of 20/40, bringing the amount down to 401 lire, and second, to a deduction of 250 lire which would reduce it still further to 151 lire. The tax on 151 lire at 20 per cent would be 30.20 lire, which would be practically 3.75 per cent on the original 800 lire.

These deductions were evidently intended to lighten the burden on smaller incomes and render the step less abrupt from exempt incomes to those which pay the tax; but the resulting progression is not carried far enough and the small incomes between 1,600 and 5,000 lire (\$320 to \$1,000) pay the same rate as the largest fortunes.

The administration of the tax is rendered difficult not only by the extremely high rate, which is in itself a strong incentive to fraud and evasion, but also by the cumbersome and complicated system in vogue which requires the services of a great number of officials and still leaves many loop-holes of escape for the shrewd and not over-scrupulous taxpayer. It would lead too far to attempt any detailed description of the methods of assessment and collection, but it may be well to mention the fact that a considerable portion of the tax is collected at the source—particularly all salaries, pensions and interest paid by the government or provinces. All corporations are required to deduct and pay over to the government the income tax from dividends, and employers are required to make similar deductions from wages of employees; but this last requirement is loosely administered as the employers are required to report only once in two years the number of persons in their employ on a certain date and it is not likely that all the money deducted reaches the government.

In making the assessment there is first a list of taxpayers (*la lista*), then the tax list (*tabella*) from which is made up the assessment roll (*registro*) which in turn serves as the basis of the tax roll (*il ruolo*). The tax roll is examined and revised by various officials such as the "*intendantes*," the perfect and the mayor, after which it reaches the hands of the communal collectors (*esattori*) who collect biennially. The collection of the tax is farmed out to the lowest bidder. The average percentage allowed by the contracts for the decade 1903-1912, varies from a minimum of .19 lire to a maximum of 6 lire (6%). It should be mentioned that the government adds 2 per cent (of the tax) to the amount of the tax to cover expenses of collection.²⁵

As has been intimated, the extremely high rates which have been adopted have had a tendency to make the administration of the law very difficult and are the cause of much fraud and evasion. Out of a population of nearly 30,000,000 people only 30,194 persons were found in one year who paid income on more than 2,000 lire (say \$400) and of this number only 8,630 were classed as having incomes exceeding 5,000 lire (\$1,000).²⁶ It appeared from the same statistics that the average income of a doctor was less than \$100 and of a lawyer or civil engineer less than \$150. On the other hand, persons receiving government salaries or pensions, or subject to deduction of income at source, were unable to escape or evade the tax and the result was that it bore very unequally upon different classes.

The total product of the tax in the fiscal year ending July 1, 1907, was 275,600,000 lire (\$55,120,000). As the total receipts for the Kingdom for the same year

²⁵. Reports from His Majesty's Representatives Abroad respecting Graduated Income taxes, Misc. No. 2, (1905) p. 131.

²⁶. Vidal, E. L'Impôt sur le Revenu. *Revue Internationale du Commerce, de l'Industrie et de la Banque*, Sept. 30, 1904.

were 1,954,500,000 lire, it thus appears that the income tax contributed 14.1 per cent of the total income.

The product of the tax, in round figures, for a term of years, was as follows:

1889-90.....	230,690,000	lire (\$46,138,000)
1890-91.....	234,350,000	" (46,870,000)
1891-92.....	233,700,000	" (46,740,000)
1892-93.....	234,710,000	" (46,942,000)
1893-94.....	234,370,000	" (46,874,000)
1894-95.....	287,310,000	" (57,462,000)
1895-96.....	289,340,000	" (57,868,000)
1896-97.....	288,340,000	" (57,668,000)
1897-98.....	286,390,000	" (57,278,000)
1898-99.....	287,100,000	" (57,400,000)
1899-00.....	289,060,000	" (57,812,000)
1900-01.....	261,450,000	" (52,290,000)
1901-02.....	294,730,000	" (58,946,000)
1902-03.....	298,040,000	" (59,608,000)
1903-04.....	298,260,000	" (59,652,000)
1904-05.....	300,670,000	" (60,134,000)
1905-06.....	305,250,000	" (61,050,000)
1906-07.....	275,600,000	" (55,120,000)

The average of the per capita tax for the same years was 8.54 lire (\$1.65); but no particular significance can be attached to this figure unless the number of people who paid the tax and the classes in which they belong are known. The number of persons who paid income tax can only be given for those who are enrolled in the register (*ruoli nominativi*) and this number, for 1904, was about 1,200,000. The number of those reached by retaining the tax at the source (*per ritenuta*) is not known, as no statistics are available. The amount of tax collected at the source in 1904, was nearly 50 per cent of the total.

Contrary to the experiences of most countries the amount collected has been decreasing for the past few years. According to a recent Consular report²⁷ the amount collected in the fiscal year ending July 1, 1908, was only 255,835,378 lire (\$49,376,229) or 16 per cent less than in 1906-7.

²⁷. Congressional Record, Vol. 45, p. 1114.

CHAPTER IX.

JAPAN, LEEWARD ISLANDS, LUXEMBURG, PANAMA, PHILIPPINES, RUSSIA, FINLAND.

JAPAN.

The system of income taxation now in force in Japan was established in 1899. Supplementary and additional rates were provided for in 1904-5 to meet the expenses of the war with Russia. Although these additional taxes were to be abolished upon the restoration of peace they were made permanent by the post-bellum financial scheme adopted by the Twenty-second Diet in 1906.

The classes and rates are shown by the following table:¹

		Ordinary rates Per Cent	Additional rates under special law Per Cent	Total rate Per Cent
CLASS 1.				
Taxes on incomes of juridical persons				
(companies or corporations)				
A. Joint stock companies or joint				
stock partnerships organized				
with at least 21 shareholders				
or shareholding partners.....				
	2.5		3.75	6.25
B. Other juridical persons with				
incomes under—				
5,000 yen (\$ 2,500).....	2.5	2		4.50
10,000 yen (5,000).....	2.5	2.25		4.75
15,000 yen (7,500).....	2.5	2.50		5
20,000 yen (10,000).....	2.5	3		5.50
30,000 yen (15,000).....	2.5	4.25		6.75
50,000 yen (25,000).....	2.5	5.75		8.25
100,000 yen (50,000).....	2.5	7.50		10
100,000 yen and upwards.....	2.5	10		12.50

¹. The Ninth Financial and Economical Annual of Japan, 1909, p. 16.

CLASS 2.

Taxes on interest on public-loan bonds
or company debentures payable in
places where the income tax law is
in force2.0

None 2

CLASS 3.

Taxes on incomes not included in the
two preceding classes:

Not less than—

100,000 yen (\$50,000).....	5.5	14.85	20.35
50,000 yen (25,000).....	5.0	12	17
30,000 yen (15,000).....	4.5	9.45	13.95
20,000 yen (10,000).....	4.0	7.60	11.60
15,000 yen (7,500).....	3.5	5.95	9.45
10,000 yen (5,000).....	3.0	4.50	7.50
5,000 yen (2,500).....	2.5	3.50	6
3,000 yen (1,500).....	2.0	2.60	4.60
2,000 yen (1,000).....	1.7	2.21	3.91
1,000 yen (500).....	1.5	1.95	3.45
500 yen (250).....	1.2	1.32	2.52
300 yen (150).....	1.0	1	2

The exemption applies only to incomes in Class 3 and amounts to 300 yen (\$150). The smallness of the exemption is no doubt due to the low standards of wages and living in many portions of the country. If the aggregate of the incomes of the members of a family or of the persons living in the same house exceeds 300 yen the exemption does not apply.

The deductions or exemptions permitted in computing incomes are as follows:

a. Salaries of officers and privates in the army and navy while engaged in war.

b. Allowances to widows and orphans and pensions to the sick and wounded.

c. Money received for traveling or school expenses and legal allowances received for support.

d. Incomes of juridical persons not conducted for profit (as, for example, religious, educational and benevolent organizations).

e. Certain occasional incomes not derived from undertakings conducted for profit.

f. Incomes derived from property or from a trade, business or profession in foreign countries, or in places in which the income tax law is not in force, but this does not apply to incomes of juridical persons whose principal offices are located in a place where the law is in force.

g. Dividends and bonuses received from corporation which pay income tax.

In fixing the amount of income under Class 1 the total losses for the business year, the balance brought forward from the preceding year and the amount reserved to meet liabilities for insurance, are deducted from the actual gross profits of the year in question.

For incomes in Class 3 the estimated annual amount, after deducting the necessary expenses of making the income, is taxed. As in all other countries, household expenses cannot be reckoned as any part of the cost of producing income. In calculating the income of agricultural lands the average of the three preceding years is taken.

Complete exemption from the income tax is granted to interest on savings debentures issued in accordance with the savings-debentures law of 1904, as well as to interest on public-loan bonds issued for the defrayment of extraordinary war expenses. All other national bonds, moreover, which were formerly subject to the income tax in the same manner as prefectural, municipal, or other public bonds, were entirely relieved thereof by an imperial ordinance approved by the Twenty-fifth Diet, promulgated on March 20 and carried into effect on April 1, 1909. These three cases constitute exceptions to the taxation of incomes of class 2 and limit the taxable incomes thereunder to the interest on public bonds other than national ones and company debentures payable in places where the income-tax law is in force. Interest on bonds and debentures, payable in places where the law is not in force, falls under incomes of class three.²

². Congressional Record Vol. 45, Jan. 27, 1910, p. 1107.

The administration of the law is in the hands of officials of the department of taxation in the bureau of finance. These officers are assisted, as to the third class of incomes, by "income investigation committees" whose members are elected by the income taxpayers of the district concerned. They hold office for four years, half of the number being elected every two years and receive traveling expenses and certain special allowances in lieu of salary.

The incomes of corporations are ascertained from their annual reports, and in like manner the amounts of interest paid on bonds and debentures are obtainable from official records. The only necessity for appeal therefore arises in connection with incomes included in Class three. Within twenty days from notification of the amount of his assessment the taxpayer may apply, through the chief of the taxation office, for an inquiry. The matter is then investigated by a permanent committee of inquiry. This committee is composed of seven persons, three tax collectors appointed by the Minister of Finance, and four members of the "income investigation committee." Pending the report of the committee of inquiry, however, the tax must be paid when due. If a taxpayer is dissatisfied with the decision of the committee of inquiry he may present a petition to the local authorities or bring an action in the administrative court.

As to the financial results of the income tax in Japan the following table will show the amounts collected for a term of years:³

³. The Ninth Financial and Economical Annual of Japan, 1909, pp. 14-15. The Japanese yen equals 49.8 cents of American money, but is commonly reckoned as worth 50 cents.

1896-7	1,810,221	yen \$	905,110
1897-8	2,095,092	"	1,047,546
1898-9	2,351,420	"	1,175,710
1899-00.....	4,837,320	"	2,418,660
1900-01.....	6,368,039	"	3,184,019
1901-02.....	6,836,890	"	3,418,445
1902-03.....	7,460,692	"	3,730,346
1903-04.....	8,247,177	"	4,123,588
1904-05.....	14,369,933	"	7,184,966
1905-06.....	23,278,377	"	11,639,188
1906-07.....	26,348,739	"	13,174,369
1907-08.....	27,291,871	"	13,645,935
1908-09.....	27,571,513	"	13,785,756
1909-10.....	29,729,858	"	14,864,929

The total revenues for 1909-10 were 518,929,283 yen and the total amount raised by taxation was 320,534,132 yen, from which it appears that the income tax amounted to 5.73% of the total revenue and 9.27% of the amount raised by taxation. The percentages for the preceding year were 4.3 and 9.5 respectively.

In the year 1907-8 the number of income taxpayers of Class 3 was 917,079, which was nearly 1.9% of the total population (48,533,000 by the census of the same year). Reckoning the families of these taxpayers the percentage was 10.4. The number of corporations (or juridical persons) of Class 1, who paid income tax during the same year was 6,374.

Of the Japanese system of income taxation it may be said that it probably owes its comparative success more to the patriotism and devotion of the people than to any peculiar provisions of the law. It is to be expected however that the Japanese, with their quickness and aptitude to adopt modern methods, will make important changes in their law within the next few years. At present no differentiation is made between taxpayers having large families and those who have not, nor between "earned" and "unearned" incomes, except in the special provision under Class 2 for the tax of 2% on the interest from

public loan bonds and company debentures. The fact that the rate for corporate income is lower than the average rate for incomes of persons is no doubt due to a desire to facilitate the floating of loans and to encourage industrial enterprises. In this respect the law is in sharp contrast with the laws of some of the Australian states which provide a much higher rate for companies than for persons.

The total amount of taxes paid by the Japanese nation is extremely large as will be seen by the following extract from the Japanese Chronicle:⁴

The Japanese Financial Commissioner in London recently estimated that the Japanese paid 35 per cent. in taxation direct and indirect. The Hochi estimates it at a much larger figure. Although no precise figures regarding the national wealth and the income of the people are available, yet the results of investigations made by the Bank of Japan and other authorities show the national wealth to amount to about ten billion dollars, gold and the total income of the people to be between \$1,500,000,000 and \$2,000,000,000. This estimate appears to be fairly correct. Taking 2/3 of this income as the cost of living, a surplus of about \$650,000,000 will be left. The amount collected in taxes reaches to between \$300,000,000 and \$400,000,000 for national taxes and to between \$750,000,000 and \$1,000,000,000 for local taxes.

LEEWARD ISLANDS

There are two so-called Presidencies in the Leeward Islands which have adopted an income tax.

4. United States Consular Report, August, 1908, p. 169.

The Presidency of *Antigua*⁵ passed an income tax law in 1900, which divided occupations into three classes:

Class A. Salaried government officials.

Class B. Professional men, etc.

Class C. Merchants.

The rate of taxation upon Class A was:

On salaries of from £100 to £150 (\$486.65 to \$730)
1½ per cent.

On salaries over £150, 3 per cent.

The amount of tax collected in 1904 was £285 (\$1,386) and the number of taxpayers twenty-three. The exemption is £100. The taxes in Classes B and C are fixed amounts for each occupation such as would be called license taxes in the Southern states of the American Union.

In the Presidency of *Dominica* the income tax has existed since 1899. The tax is a graduated one, but no distinction is made between earned and unearned incomes. In computing income, the taxes paid upon income-producing property and for business licenses, can be deducted. The rates are as follows:

Incomes exceeding £50 (\$243.32) and not exceeding £100, 2½ per cent.

Incomes exceeding £100 (\$486.65), 3½ per cent.

All incomes of £50 or less are exempt, but the exemption ceases when the income is more than £50. The average yield of the tax for five years ending December, 1904,

⁵. The Leeward Islands are under British dominion. They constitute a portion of the Lesser Antilles and are situated southeasterly from Porto Rico. Their population is 125,000, of which less than five per cent is white. See Graduated Income Tax in the Colonies. (English) Colonial Office, 1905.

was £467 (\$2,272.42). The number of income taxpayers was 100 or .003% of the population.

LUXEMBURG.⁶

By the law of February 9, 1891, it is provided that all incomes, except such as are derived from real estate and mines, shall pay an *impôt mobilier* as follows:

1. On incomes from personal property, 3 per cent.
2. On profits and gains which are the result of personal exertion in connection with a trade, profession, commerce or industry, 2 per cent.

3. On salaries, wages, fees and pensions, one per cent.

The exemptions comprise:

1. Annual profits and gains of less than 100 francs and salaries and pensions which do not amount to 200 francs.

2. Incomes of benevolent institutions and savings banks.

3. Payments made to public officials to indemnify them for traveling and other expenses necessarily incurred while in public service.

4. The pay of soldiers and of officers under the grade of lieutenant, the wages of workingmen, journeymen, domestics and servants up to 600 francs.

5. Profits of distillation.

The tax is divided into twelve payments which become due respectively on the last day of each month.

Both the Grand Duchy and the City of Luxemburg have income taxes and the amount raised in the past five years is as follows:

⁶. The Grand Duchy of Luxemburg was included in the Germanic Confederation from 1815 to 1866. By the Treaty of London, 1867, it was declared neutral territory. The population in 1900 was 236,543.

	Grand Duchy		City of Luxemburg
1906.....	1,296,087.58 fr. (\$250,145)		568,169.66 fr. (\$109,657)
1907.....	1,442,035.18 " (278,313)		624,148.84 " (120,461)
1908.....	1,662,374.97 " (320,838)		686,058.51 " (132,409)
1909.....	1,523,607.57 " (294,056)		610,575.51 " (117,841)
1910.....	1,468,035.83 " (283,331)		630,089.80 " (119,906)

The number of income taxpayers was as follows:

	Grand Duchy	City
1906.....	43,293	4,637
1907.....	44,595	4,264
1908.....	46,910	4,688
1909.....	46,719	4,780
1910.....	46,408	4,684

The proportion of the income taxpayers to the population in the Grand Duchy for the year 1910, was 19.61 per cent.⁷ Beginning with the year 1911, there will be a small supplementary tax which is expected to produce about 30,000 francs.

NORWAY

Income taxation was authorized in the City Communes (municipalities) of Norway by the law of April 15, 1882, as amended by the laws of May 30, 1891, July 20, 1893, July 23, 1894, and July 1, 1899. The *State* income tax is of much more recent origin and it is assessed and collected largely by the machinery which had been organized and perfected by the municipalities. The methods adopted by the municipalities give evidence of having been modeled to some extent upon the municipal income taxes which were introduced in the Netherlands at a still earlier period.

⁷. The statistics given above were furnished the writer through the kindness of Mons. Wagner, Inspecteur des Contributions for Luxemburg. For Statistics of earlier years see *Régime Fiscal des Valeurs Mobilières en Europe*, Vol. 2 (1901), p. 131.

The general law of 1882 did not impose an income tax, but was permissive in character authorizing the Communes to levy income taxes within certain narrow limits as to rates and exemptions. The law permitted double taxation in respect to personal property, as both the property and the income from it were taxed; but this result was minimized by a requirement that the tax should not exceed one-thirtieth nor be less than one-seventieth of the tax laid upon an equal amount of income. The principle of differentiation as to amount of exemption according to the size of the family, has been carried further than in any other country. All taxpayers are divided into eight classes, the first class consisting of those who have no children or other persons (wives not counted) dependent upon them for support; the second to the seventh classes comprise respectively those who have 1-2-3-4-5 and 6 persons to support, while eight includes all who have more than 7 dependents. The amount of total exemption at the foot of the scale for each class from 1 to 8 respectively is 200, 250, 300, 350, 400, 450, 500 and 550 Kroner.⁸ In addition to this exemption there is a series of special graduated abatements for each class. For example in the fourth class:

Incomes of	350 to	450	Kr. have an	abatement	of	9/10
" "	450	700	" "	" "	"	8/10
" "	700	1,000	" "	" "	"	7/10
" "	1,000	1,300	" "	" "	"	6/10
" "	1,300	1,600	" "	" "	"	5/10
" "	1,600	2,000	" "	" "	"	4/10
" "	2,000	2,600	" "	" "	"	3/10
" "	2,600	3,200	" "	" "	"	2/10
" "	3,200	4,000	" "	" "	"	1/10

The State property and income tax differs but little from the municipal. Instead of eight classes of exemp-

⁸. The Norwegian Krone (crown) is equal to 26.8 cents.

tions, however, it provides for four, and the rates are fixed annually by the Storting (Parliament) in accordance with an estimate or "proposition" made by the King.⁹ These rates, which have been the same for several years, were established for the budgetal period from July 1, 1910, to July 1, 1911, at

Income tax

2%	on incomes of	1,000 Kr. (\$ 268)	to	4,000 Kr.
3%	" " "	4,000 " (1,072)	"	7,000 "
4%	" " "	7,000 " (1,876)	"	10,000 "
5%	" " over	10,000 " (2,680)		

Property tax 0.033 of the total assessed value.

It should perhaps be explained at this point that all taxable property in Norway is divided into three classes, viz.:

1. *Faste Eiendomme*. (Real Estate.)
2. *Formue*. (Property or wealth, real and personal.)
3. *Indtaegt*. (Income.)

The first tax, on real estate as such, is left wholly to the local bodies as in Prussia. The property, or wealth tax, as we prefer to call it, is a tax at a very low rate on the total estimated wealth of an individual. This would include personal property which might not be producing any income, such as wheat in storage, money in a bank, outstanding credits, etc. This tax is somewhat similar to the *impôt complémentaire* in France, the supplemental tax in Germany and the *Allmaenna Bevillning* in Sweden. It necessarily involves a second taxation of real property, but at so low a rate that the additional burden is hardly

⁹. See St. prp. Nr. 10 (1910), Om indkomstskat til Statskassen i budgetterminen fra 1 ste juli 1910 til 30te juni 1911 m. v. Finans- og Tolddepartementets indstilling av 23de december 1909.

appreciable. In estimating a person's wealth the capitalized value of annuities, pensions, etc., which expire with his death are not included. It is a rough estimate at best as is indicated by the provision of the law for "rounding off" the amounts. If the estimated wealth is less than 5,000 Kroner it is placed at the nearest amount which will divide by 500; if between 5,000 and 20,000 Kr. at the nearest amount which will divide by 2,000; if between 20,000 and 150,000 Kr. at the nearest amount which will divide by 5,000; and if over 150,000 Kr. at the nearest amount which will divide by 20,000. While this tax is in no sense an income tax it is closely allied to the income tax as constituting an important adjunct or supplement to it, and the two taxes are commonly spoken of as the "property and income tax." Although the assessed amount of wealth is vastly greater than of incomes, being in 1908, in the proportion of 1,825,962,933 Kr. to 305,367,792 Kr., the amount of the tax collected from incomes is ten-fold greater than that collected by the property or wealth tax.

The amount of exemption is variable according to the number of persons whom the taxpayer is obliged to support. All persons liable to taxation are divided into classes as follows:

Class I. Those who have no dependents to support. Companies are included in this class.

Class II. Those who have from one to three persons to support.

Class III. Those who have from four to six persons to support.

Class IV. Those who have seven or more persons to support.

The persons considered as dependent on the taxpayer may be his own or adopted children, parents, brothers and sisters and other relatives and connections by marriage—but not husband or wife—who have reasonable claims for support and are actually supported by him.

There is a general exemption of 1,000 Kroner (\$268) for all incomes, except those of non-residents or absentees, who are entitled to only 400 Kroner, without reference to the number of dependents.

As in the case of municipalities there is a table of exemptions or abatements graduated both as to number of dependents and amount of income. By this table incomes of from 1,000 to 4,000 Kroner are classified in 31 grades, the progression in each instance being 100 Kroner. It will perhaps suffice to give four of these grades being the first, eleventh, twenty-first and thirty-first.

Grade	Income	Amount taxed			
		Class I.	Class II.	Class III.	Class IV.
1	1,000 Kr.	400 Kr.	220 Kr.	120 Kr.	60 Kr.
11	2,000 "	1,400 "	1,000 "	800 "	620 "
21	3,000 "	2,400 "	2,000 "	1,600 "	1,400 "
31	4,000 "	3,400 "	3,000 "	2,600 "	2,200 "

For incomes above 4,000 Kr. there is a uniform abatement of 600 Kr. in class I, 1,000 Kr. in class II, 1,400 Kr. in class III and 1,800 Kr. in class IV.¹⁰

¹⁰ An analysis of the whole table will show that there is a uniform deduction of 600 Kr. in each grade of Class I; in Class II the deductions increase after the first by 20 Kr. for each grade until they reach 1,000 Kr. (for an income of 2,000 Kr.) from which point they are uniform at that sum; in Class III the deductions increase 40 Kr. for each 100 Kr. of income until they reach 1,400 Kr. (at 3,000 Kr. of income) from which point they are not changed; in Class IV the deductions increase at the rate of 40 Kr. for each grade after the first, for 10 grades, and then in steps of 20 Kr. until 1,800 Kr. is reached for an income of 4,000 Kr.

In assessing the *property* tax the smallest estimated value considered is 1,000 Kr. and the tax is levied uniformly, that is, without graduation or reference to classes.

There is no distinction made between "earned" and "unearned incomes," and incomes are not collected at the source except in the case of companies.

As illustrating the method of computing the tax the following concrete instance may be of assistance:

A man having a family of wife and four children owns property as follows:

Residence valued at.....	10,000	Kr.
Cash in bank.....	1,000	"
Money due from others.....	4,000	"
Other personal property.....	9,000	"
Total.....	24,000	"
and has indebtedness to amount of.....	2,000	"
and an annual income of.....	16,400	"

In computing his State property tax his debts would first be deducted leaving 22,000 Kr. and, as 20,000 would be the nearest number divisible by 5,000, his assessment would be fixed at 20,000 Kr. Applying the rate of $\frac{1}{3}$ of a Kroner in a thousand his property tax would amount to 6.66 Kroner.

As an income taxpayer he would belong in Class III and be entitled to a deduction of 1,400 Kr., which would leave his taxable income 15,000 Kr. (\$4,020).

This would be taxed:

On the first 4,000 Kr.	2%.....	80	Kr.
" " next 3,000 "	3%.....	90	"
" " " 3,000 "	4%.....	120	"
" remaining 5,000 "	5%.....	250	"
Total income tax.....	540	"	(\$144.72)

The administration of the tax presents some peculiar features. No returns are required of the taxpayers and they cannot be compelled to testify as to the amount of

their incomes. The assessments are made by local boards from such information as they can obtain, and are then published. A period of four weeks is allowed within which appeals may be taken. In cases where the method of taxing a whole district may be questioned as to its legality, or it is considered that certain districts are taxed too high or too low, provision is made for appeals by the government, municipal councils, or, in some instances, by bodies of at least five taxpayers, to a county committee (corresponding somewhat to county boards of equalization in the United States), and from such committee again to a state committee or board of taxation chosen partly by the King and partly by Parliament. The cost of collecting the tax, so far as the State is concerned, amounts to about 50,000 Kr. (\$13,400), or about 7/10 of one per cent of the amount collected.¹¹

The financial results are no doubt much below what they would be with stricter requirements as to the returns. Nevertheless the yield of the tax has steadily increased. The local municipal income tax proper has increased from 9,220,878 Kroner in 1885 to 26,845,702 Kroner in 1908, and the State income tax from 5,421,956 Kroner in 1903-4 to 7,296,620 Kroner (\$1,955,494) in 1908-9.¹²

The increase in the State tax is partly due to a super-tax of ten per cent which has been levied by the govern-

¹¹. See Reports from His Majesty's Representatives Abroad respecting Graduated Income Taxes in Foreign States (1905) p. 125.

¹². Statistisk Aarbok for Kongeriket Norge, 1909, p. 143.

ment for the last few years. For example, in 1908-9 the total state income and property taxes were:

Tax on property.....	608,753	Kr.
“ “ Income	6,027,584	“
	<hr/>	
	6,636,337	“
Ten per cent super-tax.....	660,283	“
	<hr/>	
Total.....	7,296,620	“

The estimated net yield of the tax for the fiscal year 1910-11 is 7,150,000 Kroner, which includes the 10 per cent super-tax.¹³ The total state revenues amount to 144,588,364 Kroner,¹⁴ of which customs produce more than one-third. The state income tax amounts to 5 per cent of the total revenue.

As to the *Communal* taxes, the statistics for 1908 show that the total valuation of “property” (movable wealth) was2,353,223,000 Kr. and of incomes..... 535,195,000 “

The amount of taxes realized was:

From property	4,820,645	Kr.
“ income	26,845,702	“

The number of taxpayers was 690,432 or 29.34% of the total population (2,352,786).

For the year 1909 the total taxes levied were:

On real estate.....	7,376,603	Kr.
“ “movable wealth”	5,106,267	“
“ Income	27,921,884	“
	<hr/>	
Total.....	40,404,754	“

¹³. See page 5 of document cited in Note 9 *ante*.

¹⁴. Statistisk Aarbok for Kongeriket Norge, 1909, p. 157.

It will be seen that the income tax proper (27,921,-884 Kr. (\$7,483,065) yielded 69% of the total amount raised by the three taxes.

The number of taxpayers was:

In the cities.....	196,757
In the country.....	510,782
Total.....	<u>707,539</u>

The proportion of city taxpayers is relatively small, being only 27.81 per cent.

PANAMA

There is a partial income tax in Panama proportioned to receipts from personal exertion. The proceeds of the tax are devoted to public works. Real estate is also assessed upon a slightly graduated scale with general reference to the amount of annual income which it produces. This system is based upon Law No. 88 of 1904, as amplified and amended by Law No. 32 of 1909. As the provisions of the law are brief and explicit it has seemed best to give them in full:

The National Assembly of Panama decrees:

Chapter I.

Taxes on real estate and movable property.

Article I. The taxes mentioned in this chapter are imposed upon real estate and movable property, whatsoever may be the form in which it is found, in conformity with the following rates:

A. Five per cent. on the probable annual income of city property.

B. Lots within the limits of towns shall be divided into three classes, which shall pay annually per square meter as follows:

In the cities of Panama, Colon, and Bocas del Toro: The first class at the rate of B. [Balboa] 0.04; the second class, at the rate of B. 0.02; the third class, at the rate of B. 0.01.

Ordinance No. 51 (July 8, 1908) respecting subsidiary personal work:

Chapter 1. *General Provisions.*

Article 1. Personal service is a contribution imposed on all male residents of each municipal district between the ages of 18 and 70.

Article 2. This contribution is of special application, and shall be entirely applied to the improvement of means of communication, to public works of the respective districts, and to the postoffice service, the latter in those districts where it is indispensable.

Article 3. The municipal corporations can not include in their budget of revenue a less sum for public works of the respective district than that noted in the budget of revenue as a product in money of the subsidiary contribution.

Chapter 2. *On the Formation of the Lists.*

Article 4. In each municipal district there shall be "a council of personal subsidiary work," whose duty it shall be to form a list of those obliged to render their personal service in accordance with article 1.

Article 5. This council shall be composed of the following functionaries: The alcalde, who shall preside; the treasurer; and the municipal representative.

The secretary of the alcalde shall act as secretary.

Article 7. For the qualification of the persons liable to pay the personal subsidiary tax, the council shall take into account that those pertaining to the first class are those who can contribute ten days' work per year. To the second class those who can contribute eight. To the third class those who can contribute six. To the fourth class those who can contribute four. To the fifth class those who can contribute three.

Article 8. Those pertaining to the first class are the owners of haciendas, fincas, merchants, and, in general, all those who have an income or annual return from their work or occupation of \$3,000. To the second class the owners of haciendas or fincas, merchants, and, in general, all those who have an annual income or return from their work or

occupation of from \$1,800 to \$3,000. To the third class, those whose work or industry produces from \$1,000 to \$1,800. To the fourth class, those whose work, business, or industry produces \$500 or more and under \$1,000, and to the fifth class those whose industry, occupation, or business produces less than \$500 per year.

Article 9. Those of the first, second and third classes are under the obligation to pay for their services in money; those of the fourth and fifth classes in work, but they may also pay in money if they so desire.¹⁵

Stated in the form of a table and reversing the order of the classes it appears that persons with incomes of

less than \$ 500 (class 5) pay equivalent of 3 days' work in cash or labor;

of 500 to \$1,000 (class 4) pay equivalent of 4 days' work in cash or labor;

of \$1,000 to \$1,800 (class 3) pay equivalent of 6 days' work in cash;

of \$1,800 to \$3,000 (class 2) pay equivalent of 8 days' work in cash;

and over \$3,000 (class 1) pay equivalent of 10 days' work in cash.

While the law may appear somewhat crude at first glance it has distinct advantages in its simplicity, its general application to all classes and its direct relation to earning ability. In view of the fact that there is probably no other country where so large a proportion of the population receive wages and salaries, it is rather surprising that no provision for collecting that part of the tax payable in cash at the source has been made.

THE PHILIPPINES

In 1878, while the islands were under Spanish dominion, a tax was levied upon all incomes except those derived from agriculture. This tax was divided into two parts, one of which was quite similar to the Spanish sys-

¹⁵. See Consular Report in Congressional Record, Vol. 45 (Jan. 27, 1910) p. 1116.

tem of taxing profits and was known as the *contribucion directa sobre la industria, el commercio, las profesiones y las artes*. This tax was imposed by a royal decree of June 19, 1890, and was designed to reach incomes from salaries, dividends, investments and profits of business generally. The rate was half a tithe or five per cent upon the net income and some relief was afforded to the lower grades by exemptions and abatements. This tax has come to be known as the "*industria*" or "industrial tax," although the term is somewhat misleading.

The other tax was designed to reach the income from urban real estate. It was known as the *contribucion directa sobre la propiedad urbana*, or more commonly, as the "*urbana*" tax. The rate for this tax was five per cent upon the net rental value of all houses or buildings, with a deduction for repairs, which was originally forty per cent, but was eventually reduced to twenty-five per cent. There was also a super-tax of five per cent upon both taxes which was intended to cover the cost of collection.¹⁶

The place which these taxes filled in the budget may be seen from the statistics for the years 1894-5 which show that the total revenues were \$13,579,000; the amount raised by direct taxation was \$6,659,450, of which sum the "*industria*" tax contributed \$1,323,000 and the "*urbana*" tax \$110,400.¹⁷

The Internal Revenue Law of 1904, promulgated by the Philippine Commission July 2, 1904, contained the following clause:

¹⁶. Plehn, C. C. Taxation in the Philippines, in *Political Science Quarterly*, Vol. 16, No. 4, (Dec., 1901) pp. 701-711, and Vol. 17, No. 1, p. 147.

¹⁷. Report of Philippine Commission transmitted to Congress Feb. 2, 1900, p. 80.

All industrial taxes and stamp taxes imposed under the Spanish regime and heretofore in force in these islands are hereby repealed, except as otherwise specially provided in this act, and the taxes imposed by this act are substituted in lieu thereof.¹⁸

The only part of the *industria* tax which was retained related to business licenses and even this was materially changed. Under the old law merchants and manufacturers paid quarterly in advance certain specific, arbitrary amounts which were the same for all persons engaged in the same business, regardless of the amount of business transacted. Neither the value of the merchant's stock, nor the extent of his business, nor the amount of his profits were used as bases for determining his assessment. Under the new law a tax is levied at the end of each quarter of one *peso*¹⁹ for each 300 *pesos* of sales during that period²⁰ and in this manner the amount of the tax is proportioned to the volume of business transacted—being practically one-third of one per cent of the gross receipts.²¹

RUSSIA

While Russia is often mentioned in the list of countries which have no income tax, the statement requires some qualification.

¹⁸. Act No. 83 entitled a General Act for the organization of provincial government in the Philippine Islands, published by authority of the Philippine Commission. Manila, 1905, Section 146, p. 114.

¹⁹. The peso is equal to 50 cents of American money.

²⁰. Hord, John S. (Collector of Internal Revenue in the Philippines) Internal Taxation in the Philippines. Johns Hopkins University Studies, Vol. 25, (Jan., 1907) p. 7.

²¹. In Porto Rico taxes similar to the *industria and urbana* were in force until they were supplanted by the United States Revenue Act of January 31, 1901, known as the Hollander Bill, which provided for a general property tax, a series of excise taxes and an inheritance tax. Hollander, J. H. The Finances of Porto Rico, in Political Science Quarterly, Vol. 16, (Dec., 1901) p. 554.

As far back as 1724 classified poll taxes were levied in somewhat the same manner as in England and this ancient tax, which bore some rough relation to income, was not wholly abolished in European Russia until 1887. It is still retained in Siberia. At the present time the principal state taxes are those on real estate, corresponding to the American property tax. These taxes, while crude and unjust in many particulars, are a distinct improvement upon the "collective liability" plan by which the amount of tax needed was levied upon the entire rural commune collectively and arrears were exacted from all or any of the inhabitants of the village indiscriminately. By a law of 1893, provision was made for valuing land, not by its actual market value, as had been the custom, but according to the average *net income* which it produced or could be made to produce. The average rate on income of landed property, or land valued according to its revenue, is about 4 per cent.

There is also a "ticket" or license tax, levied ostensibly according to the number of shops belonging to each trader, but in fact, with some reference to capital and income. This is in addition to the "*patente*" or license system, borrowed from France in 1824, which levies a fixed sum on each occupation regardless of the amount of capital invested. As it was realized that these taxes were very unequal in their application, a third or supplementary tax, was established in 1885, during the financial administration of M. Boongue, which provided:

1. A separate tax of 5 per cent *on the net profits* of various share companies and joint-stock associations—practically a corporation income tax.

2. A levy every three years on all other commercial and industrial undertakings. This tax is laid annually upon the various districts and taxpayers on the basis of *estimated profits*.

These taxes on trade and industry amounted in 1895, to about 40 per cent of the whole amount raised by direct taxation.²²

There is still another tax, sometimes called the "tax on capital;" but in reality it is a tax of 5% upon the income or interest of capital loaned or invested in interest-bearing securities. In the estimates for 1908 the direct taxes were classified as

Land tax	61,870,259	Rubles (\$31,863,183)
Trade and industry taxes.....	99,208,000	" (51,092,120)
5% on income of capital.....	21,745,000	" (11,198,675)
Total.....	182,823,259	" 23

The direct taxes constitute something less than 10% of the total revenues.

*Finland.*²⁴ An income tax was voted by the Finnish Diet in 1863-4 and remained in force for about twenty years. For several years it was considered as a permanent tax; but it did not prove so productive as had been anticipated and was therefore changed to a temporary tax to be levied annually, if needed. It was

²². Statesman's Handbook for Russia (edited by the Chancery of the Committee of Ministers) Vol. 1, p. 169.

²³. The Statesman's Year Book, 1909, p. 1159. (The ruble = 51.5 cents.)

²⁴. The Grand Duchy of Finland was ceded to the Emperor of Russia by the Treaty of Frederikshamn, September 17, 1809. By special grant of Alexander I, (renewed by his successors) the Swedish Constitution which had been in force since 1772 was preserved, though it has been considerably amended and "reformed" at various times. Population (1906) 2,933,856. Area 125,784 sq. m. Statesman's Year Book 1909, p. 1185.

dropped as a state tax in 1895, although still used by cities and communes for local purposes.

As originally adopted the law exempted the first 500 Markkaa²⁵ (\$96.50); but, as amounts under 50 Markkaa were not considered and those above 50 and up to 100 were reckoned as 100, the exemption practically amounted in many cases to 550 Markkaa.

At a later period the exemption was limited to incomes of less than 2,500 Markkaa (\$482.50). The rates adopted were:

On incomes of 500 to 2,500 Markkaa (450 Markkaa exempt) $\frac{4}{5}$ of 1%
 On incomes of 2,500 to 5,000 Markkaa (no exemption) $\frac{4}{5}$ of 1%
 On incomes of 5,000 to 10,000 Markkaa (no exemption) 1%
 Exceeding 10,000 Markka (no exemption) $1\frac{1}{5}\%$

The yield of the tax proved unsatisfactory and the reasons for this result were evidently:

1st: That the greater portion of the population had incomes of less than 500 Markkaa and large fortunes were rare.

2nd: That the rate was very low; and

3rd: That the administration of the tax was extremely lax.

In spite of those drawbacks, however, the amount collected increased from 425,630 Markkaa (\$81,146) in 1868 to 860,356 Markkaa (\$166,048) in 1881,²⁶ and there appears to be a growing public sentiment in favor of a State income tax along more modern lines.

²⁵. The Finnish Markka (plural Markkaa) is a silver coin equivalent to the French franc, or 19.3 cents in American money. It is divided into 100 *penni* which are therefore of the same value as the French centimes. It is sometimes called Mark, but should not be confused with the German Mark, which is equivalent to 23 $\frac{4}{5}$ cents.

²⁶. Ignatius, K. E. F. Bidrag till Finlands Officiela Statistik, 4, Oeversigt af inkomstbevillningens resultater, år 1881.

In addition to the income tax there was the "Centonal," or one per cent tax on the salaries and pensions of public officials. This tax is still in force. It produces about 100,000 Markkaa each year which is applied to the military fund. There is also a capitation tax known as the "Mantalspenningar" which is levied at the rate of two Markkaa for each man and one Markka for each woman between the ages of 16 and 64 years. It yields annually about 2,000,000 Markkaa (\$386,000).²⁷

²⁷. Fredericksen, N. C. Finland, its Public and Private Economy (1902), p. 263.

CHAPTER X.

ST. VINCENT, SEYSCHELLES, SPAIN, SWEDEN, SWITZERLAND.

ST. VINCENT.

The present law, which went into effect in 1905, is a revision of the previous laws without any change in rates. The first law was the "Income and Land Tax Ordinances," 1887 to 1897, which was followed by the Income Tax Ordinances of 1902 and 1903. The rates are as follows:

Income £ 50 to £100 (\$ 486.65)	20 s. per hundred £, or 1 %
" 100 " 200 (973.00)	30 s. " " " 1.5 "
" 200 " 300 (1,460.00)	40 s. " " " 2 "
" over 300	60 s. " " " 3 "

There does not appear to be any exemption except that incomes under £50 (\$243.32) are not taxed. The provisions for the administration of the tax are quite complete. Taxpayers are expected to make returns of their income and the amount of income shown by the return cannot be increased by the assessor without notice. A peculiar feature of the law is the requirement that the Governor shall cause the income tax rolls to be published in the Official Gazette and copies to be posted in the police stations and elsewhere.

The yield of the tax in 1904 was £438 11 s. 3 d. and the average for the years 1897 to 1904, £525 (\$2,554.65). The number of taxpayers for 1904 was 217, or 0.4 per cent of the total population.

SEYCHELLES

Under Ordinance No. 16 of 1900, the following rates are levied upon all persons falling within 4 classes, to-wit:

	Rate
Class I. Owners of immovable property in the Town of Victoria.	4% on the annual locative (rental) value of such property.
Class II. Owners of immovable property outside the Town of Victoria.	3% on the annual locative value of such property.
Class III. Persons deriving an annual income of not less than £16.	1½%
Class IV. Every male between the ages of 15 and 55 (school boys excepted) <i>not included in any of the previous classes.</i>	3 s. per head

There are no exemptions and the tax is computed upon gross income except that planters may deduct cost of labor, merchants may deduct cost price of goods, and contractors and other employers of labor may deduct cost of labor and material. The tax is assessed upon returns by the individual taxpayers except in the case of Government officers whose tax is deducted from their salaries. Ministers of religion and certain police officials are exempt from the tax. There is a surcharge of 10% upon ratable persons who make no returns.

The capitation tax of about seventy-five cents per head on all persons who do not pay income tax has much to be said in its favor and it is rather surprising that the only country to adopt this plan should be these remote and almost unknown islands. It is due to this tax that 7,800 persons, or 40 per cent of the population, are income taxpayers, which is a percentage more than double the usual proportion. The yield of the tax levied upon the 4 classes above described for the year 1904 was between 50,000 Rupees (\$16,220) and 60,000 Rupees (\$19,464), or 15 per cent of the total revenues of the colony for the same year.¹

SPAIN.

There is no income tax in Spain in the sense of a tax proportioned to the taxpayers' whole income, regardless of source. Indeed, such a very competent authority as the Director General of Taxation in Spain has assured us that there is no income tax of any kind in that country. But this appears to be a question of nomenclature, as the tax on profits of movable wealth, or personal property, (*contribution sobre utilidades de la riqueza mobiliaria*) has been treated by many writers as a partial or limited income tax, and it certainly has all the characteristics of a highly differentiated income tax so far as it goes.

The law of March 27, 1902,² together with the regulations of September 16, 1906, provides for three series of

¹. Graduated Income Taxes in the (English) Colonies. Colonial Office, 1905. No. 196.

². See Gaceta Oficial de Madrid, March 28, 1900, where it is published in full.

tariffs on profits—first, of labor (*utilidades procedentes del trabajo personal*); second, of capital (*utilidades procedentes del capital*); and third, of labor and capital combined (*utilidades procedentes del trabajo juntamente con el capital*). The rates vary from one-half of one per cent on life insurance premiums to 20 per cent on numerous items and are frequently progressive within a certain class. For example, in taxing profits of *personal exertion*, certain bank officials and managers of property or estates are taxed 10 per cent, while clerks and employees of banks, companies, societies and commercial houses, as also insurance agents, actors, bull-fighters, acrobats and conjurors, pay five per cent.

Day laborers and persons receiving salaries of less than 1,500 pesetas (\$289.50) are exempt.

Salaries of state officials *en disponibilidad* and pensioners of states, provinces or municipalities, are taxed according to the following scale:

Incomes not exceeding 1,500 pesetas pay.....	15%
“ above 1,500 and not exceeding 2,500.....	16%
“ above 2,500 and not exceeding 5,000.....	18%
“ exceeding 5,000	20%

Salaries of persons in the civil service of the State are graded so that persons receiving incomes:

not exceeding 1,500 pesetas pay.....	10%
above 1,500 and not exceeding 2,500 pay.....	12%
“ 2,500 “ “ “ 5,000 “	14%
“ 5,000 “ “ “ 7,500 “	16%
“ 7,500 “ “ “ 12,500 “	18%
“ 12,500	20%

Military officers pay rates varying from 5 per cent for captains and subalterns to 18 per cent for generals.

Employees and officials of provincial councils and municipalities pay 6 per cent on salaries not exceeding 1,000 pesetas (\$193).

12% on salaries of 1,000 to 5,000 and

16% “ “ over 5,000.

In the tariff which includes *profits from capital*,

1. The interest on Spanish securities—(with the exception of

a) the 5% Consolidated debt to the United States,

b) the 4% perpetual debt to Denmark,

c) shares of external 4% debt owned by foreigners) is taxed at 20%. Other rates are,

2. On dividends of banks of issue (i. e., Bank of Spain 5 per cent.

3. On dividends of transportation and other companies (except mining), provincial and municipal loans, interest on mortgages, 3 per cent.

4. Mining companies, 2 per cent.

The rates for the third tariff, representing *combination of labor and capital*, are shown by the following table:

1.	Profits of Banks.....	15%
2.	“ “ companies (other than mining and railway)	12%
3.	“ “ transportation companies	7%
4.	“ “ societies for production and consumption (except those of workmen), including co-operative credit associations	6%
5.	Premiums on fire insurance.....	2%
6.	Premium on life and accident insurance.....	0.5%

By the terms of the budget of 1905 incomes of private individuals under 1,500 pesetas and salaries of persons in the employ of the State under 1,000 pesetas were exempt.

Companies, etc., deducting income at source are allowed one per cent for making the collection. No statistics are available to show the cost of collection.

There is, in addition to the tax on profits above described, a "tax on the exercise of industrial, commercial and professional enterprises" commonly called the industry or industrial tax. This corresponds somewhat to the occupation or business license tax in the Southern states of the American Union. There are five principal "tariffs" which have a great number of divisions and subdivisions. The third tariff, for example, has 418 headings with 643 specific rates.

The most notable features of the Spanish tax on profits, or income, are, first, the great length to which the principle of differentiation is carried and, second, the fact that practically all the incomes reached are such as can be and are collected at the source.

As in Italy, there is no attempt to reach the income from real estate, it being considered that the direct land tax is a more efficient method. In spite of the large extent to which income is collected at the source it is said that there is a great amount of fraud and evasion.³

Mr. E. Hicks Beach, third Secretary to the British Embassy, has prepared a tabular view of the Spanish system, a portion of which (somewhat condensed) is quoted to show the general outlines of the scheme:⁴

³. Vidal. *L'impôt sur le revenu*. *Revue Internationale du Commerce de l'Industrie et de la Banque*. Sept., 1904, p. 552.

⁴. Reports from His Majesty's Representatives Abroad respecting graduated income taxes in Foreign States, (August, 1905) p. 137.

Source of Income	Principle	Assessment System	Rate
Tariff I: Earnings.	Differentiation (in favour of direct earn- ings without regard to facility of col- lection)	(a) Indirect earnings— e.g., Direc- tors, etc., of Banks and Com- panies.....	Per Cent 10
		(b) Direct earn- ings—e.g., Agents, and employees,	5
	Differentiation combined with gradua- tion.	(c) "Passive" e.g., Pen- sions, &c....	15 to 20
		(d) "Active" official salaries—	10 to 20
Tariff II: Interest on Investments.	Differentiation (the rate rises in proportion to the facili- ties of collec- tion at source)	(a) State securities...	20
		(b) Bank shares..	5
		(c) Business, municipal loans, rail- ways, mort- gages, &c...	3
Tariff III: Interest and earnings com- bined.	Differentiation (the rate rises in proportion to the facility of collection at source, and in inverse proportion to the public benefit accru- ing from the enterprise)	(a) Banks.....	15
		(b) Limited Companies..	12
		(c) Railways and canals..	7
		(d) Co-operative Associa- tions.....	6
		(e) Insurance property personal ...	2 $\frac{1}{2}$

As to the financial results of the system, it would seem that the proportion of tax collected from earnings by personal exertion is much lower than in other countries. For

example, in 1903, the amount of income returned from earnings was only one twenty-fourth of that from property, and property and personal exertion combined. The amount of tax collected for 1903 was \$18,426,345. In the budget for 1908 the tax represented 134,000,000 pesetas (\$25,862,000) in a total estimated income of 1,040,000,000 pesetas. The proportion of the tax was therefore 12.88 per cent of the whole national income.⁵

SWEDEN

A combined property and income tax was adopted in Sweden in 1897, but the present income tax proper dates from July 21, 1902. By the provisions of the first law, which is usually called the "General Supply" (*Allmaenna Bevillning*), real estate was taxed upon its value as determined by assessments made every five years, and certain classes of income, such as dividends on investments in public companies, were not taxed. The rate of this tax is usually one per cent and it is made slightly progressive by abatements on smaller incomes as follows: Incomes below 500 Kronor⁶ (\$134) are exempt. For incomes between 500 and 1,200 Kr. (\$321.60) there is an abatement of 450 Kr., which would have the effect to reduce the rate on unabated income to 1/10 of 1% for 500 Kr. and 0.54% for 1,200 Kr. There is also an abatement of 300 Kr. for incomes between 1,200 and 1,800 Kr. The exemption and the abatements may be increased not to exceed 200 Kr. in cities where house rent is very high.

⁵. Consular Report in Congressional Record, Vol. 45, (Jan. 27, 1910) p. 1115.

⁶. The Swedish krona (pl. kronor) is equal to 26.8 cents of American money. It is divided into 100 oere.

The income tax law of 1902, as amended in 1907 and 1908, does not supplant any portion of the former law, but is strictly supplemental to it. It is intended to reach all forms of income, including dividends from companies and revenues of real estate. The amount of income from real estate, however, is arbitrarily fixed at 6 per cent of the assessed valuation for agricultural land and 5 per cent for other land.

The real estate valuations used are those obtained for the "general supply" law, with the difference that the later law permits the deduction of mortgage incumbrances. As illustrating the working of the two laws in regard to real estate the case may be taken of a man who owns a farm which has been assessed for 100,000 Kr. (\$26,800). Under the "general supply" law he would pay 6 oere for every 100 Kr. of assessed value, or 60 Kr. (\$16.08). In the case of the income tax, his income from the land would be assumed to be 6 per cent of 100,000 Kr. or 6,000 Kr., which, at one per cent, would yield a tax of 60 Kr. His total tax under the two laws would therefore be $60 + 60 = 120$ Kr. (\$32.16).

The most notable feature of the Swedish income tax law is the finely graded scale of progression which has been secured wholly by means of abatements and additions, while preserving a uniform rate of tax. The numerous advantages of such a plan, as well as its scientific justification, are at once apparent. With a uniform rate, determinable annually, the task of adapting the tax to the fiscal needs of the Kingdom is rendered very simple. Not only can the yield of the tax be increased or diminished by a slight variation in the rate, but the amount of such increase or diminution can be estimated in advance with approximate accuracy. On the other hand, the curve of progression obtained corresponds very

closely with the latest and most approved scientific formulæ. The method by which the progression is secured may seem a little complicated at first glance, but it is in accordance with very simple rules. These rules may be summarized as follows: Incomes under 1,000 Kr. are exempt. If the income amounts to 1,000 Kr., but is less than 2,000, there is an abatement of 800 Kr.; if 2,000 Kr. and over, but under 3,000, 600 Kr. is deducted and if over 3,000 Kr. and under 4,000, the deduction is 400 Kr. For incomes from 4,000 Kr. to 6,000 Kr. (and practically to 6,100), the one per cent rate applies to the true income without abatement or addition. If the income is more than 6,000 Kr. that portion which exceeds

6,000 Kr., but not	10,000 Kr. is increased	50%
10,000 " " "	15,000 " " "	100%
15,000 " " "	20,000 " " "	150%
20,000 " " "	30,000 " " "	200%
30,000 " " "	50,000 " " "	250%
50,000 " " "	80,000 " " "	300%
80,000 " " "	" " "	400%

The application of these rules will result in a table of 1,446 grades in which true income advances 100 Kr. for each grade, while the actual percentage of tax to true income rises from 2/10 of one per cent at 1,000 Kr. to 4 per cent at 145,500 Kr. Above the last mentioned sum the amount of tax is uniformly proportional, being one per cent of four times the income, which is equivalent to a flat four per cent rate.

The following abbreviated table to which equivalents in American money and actual percentage of tax have been added, will perhaps suffice to show the general plan:⁷

⁷ For the full table, which fills thirteen closely printed pages, see Sjaelfdeklaration, by Bodin and Palmgren. Stockholm, 1909, pp. 203-215.

True Income Kronor	Dollars Cts.	Assumed income to which 1% rate applied Kronor	Percentage of tax to true income
1,000	268.00	200	.2
1,100	294.80	300	.27
1,200	321.60	400	.33
1,300	348.40	500	.36
1,400	375.20	600	.43
1,500	402.00	700	.46
1,600	428.80	800	.5
1,700	455.60	900	.53
1,800	482.40	1,000	.55
1,900	509.20	1,100	.57
2,000	536.00	1,400	.7
2,100	562.80	1,500	.74
2,200	589.60	1,600	.72
2,300	616.40	1,700	.74
2,400	643.20	1,800	.75
2,500	670.00	1,900	.76
2,600	696.80	2,000	.77
2,700	723.60	2,100	.77
2,800	760.40	2,200	.78
2,900	777.20	2,300	.79
3,000	804.00	2,600	.86
3,100	830.80	2,700	.87
3,200	857.60	2,800	.87
3,300	884.40	2,900	.87
3,400	911.20	3,000	.88
3,500	938.00	3,100	.88
3,600	964.80	3,200	.89
3,700	991.60	3,300	.89
3,800	1,018.40	3,400	.89
3,900	1,045.20	3,500	.9
4,000	1,072.00	4,000	1
4,100	1,098.00	4,100	1
4,200	1,125.60	4,200	1
and so on to			
6,000	1,608.00	6,000	1
6,100	1,634.80	6,100	1
6,200	1,661.60	6,300	1.01
6,300	1,688.40	6,400	1.01
6,400	1,715.20	6,600	1.03
6,500	1,742.00	6,700	1.03
and so on to			
25,000	6,700.00	49,500	1.98
and			
25,500	6,834.00	51,000	2
and			
65,500	17,554.00	194,500	3
and			
145,500	38,994.00	582,000	4

The method followed in constructing the table may perhaps need some explanation. For example, with an income of 6,100 Kr., there is an excess over 6,000 Kr. of 100 Kr. and 50% of this would be 50 Kr.; but amounts of less than 100 Kr. are not taken into consideration and therefore the amount taxed is 6,100 Kr. When the income is 6,200 Kr. 50% of the 200 Kr. excess would be 100 Kr., which, added to 6,200 would make 6,300 Kr. to be taxed. An income of 8,000 Kr., being 2,000 in excess of 6,000 would have 50% of 2,000 or 1,000 Kr. added to it. In beginning a new class the addition is made to the last assumed amount in the preceding class. For example, 10,000 Kr. of income is taxed as 12,000 and 10,100 Kr. is taxed at 12,200 Kr., 100% of the excess over 10,000, i. e., $100+100$, being added—not to 10,000,—but to the preceding assumed amount.

The administration of the tax does not present any unusual features. Declarations of income are required from all persons having an income of 1,000 Kr. or who paid income tax in the preceding year and a failure to make such a declaration works a forfeiture of the right to appeal from the assessment made by the officials. There is no provision for collection of income at the source and no differentiation between “earned” and “un-earned” incomes, nor between persons who have large families and those who have not.

Prior to 1907 the income of the current year was taken into consideration, but the law was amended so as to require the return to give the income for the preceding calendar year. In 1908 another change was made, by which the husband was no longer required to make a return of his wife’s income as if it were a part of his own,

but the wife was to make a declaration of the income received from her separate estate.

The results of the two taxes from a financial standpoint may be seen from the following statistics: For the year 1905, the amount of income returned was 822,638,000 Kr. which was reduced by sundry exemptions to 704,210,000 Kr. (\$188,728,280). The *assumed* income upon which the tax was levied in accordance with the table of rates was 1,268,269,000 Kr. (\$339,896,092). Of the total income there was derived

from capital	6.1%
“ labor, pensions, etc.....	43.9%
“ capital and labor combined, i. e., commercial and industrial enterprises...	50 %

The value of the agricultural land taxed under the “General Supply” law was.....2,601,117,000 Kr.
and of other real estate.....2,974,922,000 “

being a total of.....5,576,039,000 “

The income tax proper produced in 1903 the sum of 10,586,504 Kr. (\$2,837,183). The number of income taxpayers was 194,963, of whom 191,515 were private individuals, 789 public bodies and 2,659 companies and banks. It thus appears that one person in 27.26 of the population (5,221,291 at that time), or 3.6%, paid income taxes. According to the budget for 1905, the amount of the income tax was 12,682,694 Kr. (\$3,408,962) and of the property and income tax or “general supply” 10,090,232 Kr. (\$2,704,182).

The estimates for the same taxes in 1907 were,
Income tax12,600,000 Kr.
Property and income tax.....10,000,000 “

Total.....22,600,000 “

As the total estimated revenue of the Kingdom for the same year was 193,383,000 Kr., the two taxes contributed 11% of the whole amount.

The amount produced by the two taxes in 1908 was 23,400,000 Kr. and in 1899, 26,000,000 Kronor.⁸

SWITZERLAND

The income taxes which have been levied in most of the cantons for more than half a century have taken on so many different forms and are based upon such widely divergent theories that any brief and intelligible summary of them would be impracticable. It is proposed to make only a few general observations regarding them and give an example of the system as seen in one of the leading cantons.

Perhaps the most notable and distinctive feature of the cantonal taxing system is the extent to which the progressive principle is applied to property as well as to income taxes. Seligman has classified the cantons as follows:

1. Those which have a proportional property tax, but a progressive income tax.
2. Those which have a progressive property tax; and
3. Those in which the progressive principle is applied to both property and income.

Most of the cantons also distinguish sharply between *earned* income (*unfundiertes Einkommen*), (meaning thereby income not derived from capital), and income from *investments*, conceding a lower rate to the former.

⁸. Svensk Rikskalendar, 1909.

A curious feature of the Swiss system is that a separate progressive rate is often applied to both income and property and as the rates in both instances are lower on smaller amounts it may happen that a taxpayer with 2,500 francs income from property and 2,500 francs from labor will pay less than if he had an income of 5,000 francs either from property or labor. The progression is accomplished not only by increased rates upon larger amounts, but also in many cases by additions (*Zuschlaege*) to the higher amounts and abatements (*Abzuege*) from the lower amounts.

For example, in the Canton of Aargau, if the amount of taxes which one is required to pay is more than 40 and less than 70 francs he must pay five per cent additional, and if more than 70 and less than 100 francs ten per cent, and so on until those who pay over 500 francs are required to pay a supplemental or "super-tax" of thirty-three per cent. As an instance of the abatements (French, *dégrèvements*), may be cited the income tax of the Canton of Zurich which falls upon only

1/5	of the first	1,500 francs	of income
2/5	" "	next 1,500	" " "
3/5	" "	" 3,000	" " "
4/5	" "	" 4,000	" " "

while all above 4,000 fr. is reckoned upon the full amount.

The most common method employed in Switzerland might be described as *ad valorem* taxation of property combined with a tax upon that part of income which is derived from *labor*. This system is followed in fourteen cantons, viz.: Zurich, Lucerne, Uri, Obwalden, Zug, Freiburg, Schaffhausen, Appenzell A. Rh., St. Gall,

Graubunden, Aargau, Thurgau, Waadt and Neuchatel.⁹ In four of the cantons—Baselstadt, Baselland, Solothurn and Tessin—property is taxed as such upon its value, and *all* income, whether derived from property or labor, is subject to taxation. The result is that productive property is reached by both taxes and therefore pays a double tax. In the Canton of Schwyz there is a partial income tax which applies only to annuities and pensions. There are taxes in other cantons which may be said to take the place of income taxes, as in Geneva and Wallis, where there is a tax on industrial capital and on the earnings of all professions connected with science and arts as also of certain trades.

In regard to the *exemptions* for the minimum of subsistence a variety of methods has been adopted. In several of the cantons heads of families have higher exemptions than single persons and the amount varies according to the number of children. In some cases the exemption is much larger for incomes from labor than for incomes from capital. The average exemption on an income from labor for an unmarried man in seventeen cantons appears to be 623 francs (\$120). In certain can-

⁹. Perhaps the best example of this method is the canton of Waadt (Vaud) where there are two main bases of taxation: a. fortunes consisting of personal property and b. income from property and labor. Fortunes are assessed by a progressive scale, the grades being 25,000, 50,000, 100,000, 200,000, 400,000, 800,000 and above 800,000 francs for which the rates rise by steps of $\frac{1}{2}$ per cent from 1 per cent to 4 per cent. For *incomes* the scale is

1 franc	to	1,250 francs	.....	1	%
1,251 francs	"	2,500	"	.....	1½%
2,501	"	5,000	"	2	%
5,001	"	10,000	"	.....	2½%
10,001	"	20,000	"	3	%
20,001	"	40,000	"	.....	3½%
40,001	"	and over	.....	4	%

See Graduated Taxation in the canton de Vaud by W. B. Duffield, in Westminster Review, Vol. 144, (Oct., 1895) pp. 401-408.

tons, as in Zurich, the exemption applies to all incomes, regardless of their amount; in others it is only available for incomes below a certain sum, and all incomes above that sum are assessed in full.

The rates are progressive in most of the cantons and in Baselstadt, Schaffhausen, Graubünden, Lucerne and Zurich the rate for each grade or step in the progression applies only to the income in that grade and not to the income in the preceding grades.

The differentiation in favor of labor incomes is seen in the fact that the average amount of tax in twenty cantons on an income of \$800 derived from labor would be \$15.00; while the average tax on property worth \$20,000 which at 4% would yield an income of \$800, would be \$32.00.

As already intimated it would lead too far to attempt a full description of the methods of taxing incomes in each of the Swiss cantons; but a brief account of the system adopted in the half-canton of Baselstadt may be of interest.¹⁰ This canton is selected, not because it is in any sense typical, but because the writer resided for some years in Basel, and, having been assessed for income tax, had his attention called to the system then in vogue.

The tax upon income and earnings (*Einkommens- und Erwerbssteuer*) in the canton of Baselstadt is levied upon all persons residing in the canton subject to its pro-

¹⁰. Baselstadt consists of the city of Basel and three small villages on the right bank of the Rhine. Population in 1887-1888, the period to which our statistics relate, 73,749. Baselstadt should not be confounded with Baselland, the other half-canton. The amount of income tax raised in Baselstadt in 1900 was much larger than in any other canton and constituted nearly one third of the whole amount raised in the Swiss Confederacy. Cf. Reports from His Majesty's Representatives Abroad, etc. (1905) p. 87.

visions and also on non-residents having property or business in the canton which yields income.

Exempt from the tax are

1. Single persons whose incomes do not exceed 1,200 francs.

2. Married people who keep house and widowers living with their minor (*unerwachsene*, literally not grown up) children, providing that the income in either case does not exceed 1,500 francs.

3. Widows, with minor children, whose income does not exceed 1,800 francs.

4. Female housemaids and servants who are not members of the households of their employers.

5. Persons who are public charges.

The income tax is reckoned as follows:

A fixed tax of 8 francs is payable by

a) Each person receiving an income of from 1,200 to 1,500 francs.

b) Married people having their own households and widowers living with their minor children, providing that in either case their incomes are from 1,500 to 1,800 francs.

c) Widows supporting minor children and having incomes of between 1,800 and 2,400 francs.

Taxpayers who do not belong to the above classes are liable to pay

upon income up to	4,000 francs				1%
" excess above	4,000	" up to	8,000 francs		2%
" " "	8,000	" " "	12,000	"	3%
on all above			12,000	"	4% ¹¹

¹¹. This was the law in 1888, but it has been changed so that in 1897 the 4% rate applied only to the incomes between 12,000 and 16,000 francs and all above 16,000 francs was taxed 5%.

It is provided that there may be deducted from gross income the interest on borrowed capital, wages to employees and other necessary business expenses including losses of capital during the year. On the other hand taxes, household and similar personal expenses can not be deducted. If a taxpayer owns the house in which he lives the rental value of the house is to be added to his income.¹² In the case of corporations, they were required, by a law of March 13, 1902, to pay a tax of $1\frac{1}{2}$ per mille on their paid in capital, $\frac{3}{8}$ per mille on capital not paid in and $1\frac{1}{2}$ per mille on their net profits.

The *municipal* income tax of the city of Basel is levied upon every inhabitant over twenty years of age except students, from without the city, female house servants and paupers. Taxpayers are divided by the Tax Commissioner upon the basis of their average gross income into the following classes:¹³

Class	Income (in francs)		Approximate equivalent in dollars		Tax (in francs)	Percentage	
1.	800 to	1,200	160 to	240	6	.75 to	.5
2.	Over 1,200	" 1,500	240 "	300	8	.66 "	.53
3.	" 1,500	" 2,200	300 "	440	12	.8 "	.54
4.	" 2,200	" 3,000	440 "	600	20	.9 "	.66
5.	" 3,000	" 4,000	600 "	800	28	.93 "	.7
6.	" 4,000	" 6,000	800 "	1,200	40	1. "	.66
7.	" 6,000	" 10,000	1,200 "	2,000	68	1.13 "	.68
8.	" 10,000	" 15,000	2,000 "	3,000	120	1.2 "	.8
9.	" 15,000	" 20,000	3,000 "	4,000	180	1.2 "	.9
10.	" 20,000	" 30,000	4,000 "	6,000	280	1.4 "	.93
11.	" 30,000	" 40,000	6,000 "	8,000	400	1.33 "	1.
12.	" 40,000	" 60,000	8,000 "	12,000	600	1.5 "	1.
13.	" 60,000	" 100,000	12,000 "	20,000	1,000	1.66 "	1.
14.	" 100,000	" 150,000	20,000 "	30,000	1,600	1.6 "	1.06
15.	" 150,000	" 200,000	30,000 "	40,000	2,400	1.6 "	1.2
16.	" 200,000			40,000	3,000		1.5

¹². Instead of adopting this simple provision, the income tax of 1864 in the United States exempted the amount paid for rent of a home, the idea in each case being to place the man who *rented* a house on an equal footing with the man who *owned* the house in which he lived.

¹³. For the convenience of our readers we have added to the original table the approximate amounts in American money and have computed the percentages.

It will be seen that the above rates are occasionally regressive as between classes, and that in every class the smaller incomes pay a larger per cent than the higher incomes. The incomes are assessed every four years by a tax commission which in certain cases may employ experts, and retaxation is made to meet certain contingencies. The amount of tax is assessed and payable quarterly. It appears from recent statistics that in 1903 about 5 per cent of those who paid income tax were in receipt of more than one-half of the total income, and—what is quite unusual—the bulk of the tax is paid by those having relatively high incomes. In other words, three-fourths of the tax is paid by persons having more than 16,000 francs (\$3,200) of income.¹⁴ The three forms of taxation are not exclusive of and supplementary to each other as in most of the other cantons, but overlap in such a manner that it was estimated in 1887, that a fourth of the whole total income of the canton paid three taxes and more than a fifth two taxes.¹⁵

As to the *financial results*, little is known as most of the cantons do not preserve or publish statistics as to the amount collected and the number of taxpayers. The receipts from income taxes in eighteen cantons for the year 1900 were approximately as follows:

¹⁴. See Basel's *Staatseinnahmen und Steuervertheilung 1888-1903*, published by the Statistical Department of the Canton of Basel-stadt in 1905.

¹⁵. For a very full account of the taxing system of Switzerland in general and the income tax in particular, see Schanz, *Die Steuern der Schweiz*, in five volumes, 1890. See also *Handwoerterbuch der Staatswissenschaften*, Band III, 3te Auflage, 1909, p. 753. *Income and Property Taxes in Switzerland*, by Prof. Gustav Cohn, *Political Science Quarterly*, Vol. IV, No. 1, p. 37.

Appenzell A. Rh.	5,158 francs	St. Gall	75,038 francs
Aargau	44,767 "	Schaffhausen	26,276 "
Baselland	27,566 "	Solothurn	38,378 "
Baselstadt	751,700 "	Thurgau	52,567 "
Berne	544,549 "	Tessin	88,654 "
Freiburg	25,870 "	Wallis	4,598 "
Graubunden	43,390 "	Waadt	72,506 "
Lucerne	24,062 "	Zurich	551,780 "
Neuchatel	68,562 "	Zug	3,903 "

The total amount as shown above was \$2,449,364, while the sum collected from property taxes for the same year was \$4,003,205, which would indicate that the income tax contributed about 38 per cent of the total amount raised by taxation.

In the Canton of Zurich, according to Dr. Steiger,¹⁶ the taxation of incomes was so severe that, in the year 1900, no less than 8,493 taxpayers lodged appeals with the Appellate Commission. The same authority estimated that from 30 to 50 per cent of taxable capital is concealed from the authorities and that the annual loss to the Canton, in the years 1870 to 1894, was about \$400,000 from this cause alone.

It is quite common for speakers and writers in the United States to refer to the income tax of the Swiss Republic as a shining example of what great things can be accomplished by such a tax among a free and enlightened people. But they overlook the fact that the Swiss Republic, as such, levies no income tax; that, of the 25 cantons, five do not have any income tax, twelve have only a partial tax, based chiefly on earnings, and only four have a general income tax. It should be remembered too that Switzerland has less than one-third the area of the State of Wisconsin, while its population is fifty per cent greater. But, in spite of its compactness,

¹⁶. Steiger, J. Grundzuege des Finanzhaushaltes der Kantone und der Gemeinden, 2 Teile, Berne, 1903.

which might be thought favorable to uniformity, there is the greatest diversity in the methods by which the tax is administered and, as a result, the whole system is complex and confused. No two cantons levy the same rate or apply the same principle of classification. Some exempt a minimum of existence and some not; some increase the progression by abatements and some by additions or a super-tax; some have high rates and others low; and altogether one finds himself in such a maze of contradictory and conflicting methods that he may well pause before quoting the so-called "Swiss Income Tax" as a model.

CHAPTER XI.

INCOME TAXES IN AMERICAN COLONIES AND STATES.

INCOME TAXES IN THE COLONIES.

The beginning of the income tax in America may be found in the so-called "faculty taxes," or perhaps at a still earlier period in certain taxes which were levied on produce. The word faculty was used somewhat in the sense of "ability to pay."¹ It is true that income (except in the case of salaries), was not taken to be the sole index of ability to pay, but the amount of property owned by the individual was also considered. Under these circumstances the question naturally arises whether or not such taxes could properly be called income taxes. Professor Seligman is of the opinion that they could not and has expressed his views as follows:

1. Faculty ("*das Maas der Steuerkraft*,") the measure of tax-paying ability) has been defined as "the whole amount of income remaining to the taxpayer (after deducting the expense of its production) which can be demanded for purposes of taxation with due regard for his standard of living. Von Scheel, *Die progressive Besteuerung*, in *Zeitschrift fuer die gesammte Staatswissenschaft*, Vol. 31, p. 284, 1875. This definition looks wholly to income. A broader definition, though somewhat vague, is "the sum of the economic conditions which tend to make it possible or easy to get together the tax." R. Meyer, *Die Principien der gerechten Besteuerung*, p. 311, 1883.

The points which I desire to emphasize here are that these faculty taxes were not direct income taxes at all; that they were simply an addendum to the early land taxes, originally levied on product; and that with the change of the taxes on product into taxes on property these faculty taxes gradually fell into disuse. To call them income taxes is a misnomer. Income taxes in the modern sense were levied for the first time in England in 1799, and it was at a considerably later period that they spread to other countries. To claim then, that our colonial taxes on faculty were income taxes betrays a confusion of thought and an ignorance of economic distinctions. The faculty tax had its origin in the same motives that have led to the introduction of modern income taxes, but it was not an *income tax*, just as the French land tax and the German *Lohnsteuer* of today, levied on the produce of land and of industry respectively, are not income taxes. The distinction between *real* taxes on product, on the one hand, and *personal* taxes, or taxes on income, on the other hand, is one of fundamental importance in the science of finance. To disregard it can only bring confusion. To observe it will enable us to explain what is otherwise inexplicable in American economic history.²

On the other hand, Doctor Kinsman, who has made a thorough study of these taxes makes the following distinction:

The essential point in which the faculty tax differed from the later income tax was in the method of assessment. As a rule the faculty tax was an estimated tax, whereas the income tax proper has been, in theory at least, a tax upon the actual income of individuals. The most superficial examination reveals the fact that the

2. Political Science Quarterly, Vol. X (June, 1895), p. 247.

faculty tax underwent an important evolution in the colonial period, developing from a vague, indefinite effort to tax personal ability to a definite, well-defined tax directed against income from wages and profits.³

The whole question is one of nomenclature and could perhaps be settled by calling the faculty taxes partial income taxes. In any case, it is quite evident that most of the state income taxes thus far levied were based upon, and found their beginnings in, the faculty taxes of colonial times.

In Massachusetts, as early as 1634, there was enacted a law that "in all rates and public charges the towns should have respect to levy every man according to his estate, *and with consideration of all other his abilities whatsoever* and not according to the number of his person." This law was gradually made more explicit and comprehensive until in 1646 it provided that certain tradesmen should be rated according to their "returns and incomings," "proportionable to the product of the estates of other men." Upon the union of the colonies in 1692 it was provided that real and personal property should be taxed according to its yearly "value or income" and in 1695 the tax upon handicraftsmen was fixed at "4 pence on the pound for his income." It will be seen that the tax of this period, although not of universal application, contained all the essential elements of a proportional income tax. In 1738 a certain flexibility was given to the

³. Delos O. Kinsman. *The Income Tax in the Commonwealths of the United States*. Publications of the American Economic Association. Nov., 1903. This excellent little book represents a great amount of original research and we are indebted to it in large measure for the facts given in this chapter. See also Seligman's valuable article on *The Income Tax in the American Colonies and States* in Vol. 10, *Political Science Quarterly*, June, 1895.

operation of the tax by a requirement that "the income or profit received from any trade, faculty, business or employment whatsoever, and all profits which may or shall arise by money or other estate *not particularly otherwise assessed*, or commissions of profit in their improvement, according to their understanding and cunning should be taxed at one penny on the pound *to abate or multiply the same*, if needs be, so as to make up the sum hereby set and ordered for such town or district to pay." It is quite possible that this provision for the variability of the rate according to necessity marks the origin of a principle which is a prominent feature of the English income tax. The exclusion of estate "otherwise assessed" is still a feature of the Massachusetts law which no doubt furnishes a convenient loop-hole of escape for a great amount of property, and accounts in a measure for the acknowledged inefficiency of this legislation. It will be noted that the rate of taxation on incomes was sometimes different from the rate on other property. For example, in 1778, the assessors were required to take into consideration the way in which the income, or profit, was made and to assess it at such a rate as they judged to be just and reasonable, provided they did not assess such income or profit at more than five times the amount in other kinds of estates. It is an interesting fact that the Massachusetts income tax law of 1780 has continued in force without any very material modification to the present time. It is unfortunate that the amounts collected from incomes in the Massachusetts colony cannot be known owing to the fact that they were blended with other taxes.

Connecticut adopted the law of Massachusetts Bay in 1649. The law was amended from time to time and in 1771 was made to apply to "all traders by wholesale, tradesmen, artificers, tavern keepers and others by law rateable on account of their faculty or business." It should be noted that the tax gradually came to be in lieu of, rather than supplemental to, the property tax.⁴ Real estate was rated not according to its value, but in proportion to the annual income, which, on the average, it was deemed likely to produce. Land was put into the list at a fixed rate for each kind, not because these sums were deemed to be the value of the land, but because they were thought to represent the average income which it would produce."⁵

The law was repealed in 1819. It is to be regretted that the principle which it embodied of taxing land according to its productivity rather than according to its mere selling value was abandoned and not elaborated as it might have been.

In *Rhode Island* the first attempt to levy a faculty tax seems to have been made in 1673 when it was provided that taxes ought to be assessed not alone according to property, but also according to the "faculty," or "profits and gains" of individuals. The rate on merchants and tradesmen was assessed "according to the yearly profit." As late as 1744 assessors were required to "consider all persons who made profits by their faculties and rate them accordingly." But the law does not seem to have been very effective. It finally fell into entire disuse—probably about 1750.

4. American State Papers. Finance, Vol. 1, p. 423.

5. Report of Connecticut Tax Commission of 1887.

New Hampshire had about the same experience with the tax as Rhode Island. In 1719 the selectmen were authorized to assess inhabitants "according to their known ability and estate;" but the law became a dead letter and it does not appear in the tax law of 1794.

Vermont. From 1779, until it became a state, Vermont had a law which taxed attorneys at law, tradesmen, traders and artificers "proportionable to their gains and returns."

Virginia, although late in its adoption of the faculty or income tax, seems to have profited somewhat by the experience of other colonies and its first law in 1777 was evidently framed with some care. It required assessors not only to assess all real and personal property, but also to obtain from each taxable person (except military officers) a sworn statement of the amount received from interest and also of the amount received from salaries and fees. Each taxpayer was required to keep a distinct account of his "neat income." The tax amounted at first to two shillings on the pound (10%) on *interest* and ten shillings on each hundred pounds (.005%) on *salaries*. The law was to remain in force for seven years, but the amount realized from the tax the first year was so small that the rates were raised to four shillings on the pound for annuities and twenty shillings for every hundred pounds of the "neat income of all offices of profit." This amendment to the law was to be in force for six years; but, when the revenue laws of the state were revised in 1782, the taxes on income were omitted with the exception of a tax of clerks for courts of one-third their fees, which was repealed in 1790.

South Carolina has had a long experience with the income tax. The original law of 1701 was changed in 1703 so as to apply to "estates, goods, merchandise, stocks, *abilities, offices and places of profit.*" In 1758 the law was changed so as to require store-keepers, as well as physicians and surgeons to be taxed "for their stock and trade and the profits of their professions at the rate of eighteen shillings for every one hundred pounds (0.9%) upon the full value of their profits." In 1760 the law was again amended so as to provide for a tax of "six pence per cent" ($2\frac{1}{2}\%$), "on the profits of all faculties, professions (except the clergy) factorage and handicraft trades throughout the province to be ascertained and rated by the several assessors and collectors according to the best of their knowledge and information."

The law remained in this form until the adoption of the first constitution in 1776.

STATE INCOME TAXES.

There is a surprisingly large number of people, especially in the western and central portions of the United States who are disposed to look at a state income tax as a newly discovered and highly promising measure of fiscal reform. To some such it may come as a surprise to learn that income taxes in almost every imaginable form have been tried for many years in some of the eastern and southern states. The following is a rough summary of the periods for which income taxes, in some form or other, have been in force in twenty of the states, the colonial and statehood periods being combined:

State	from	to
Alabama	1844	1884
Connecticut	1649	1819
Delaware	1869	1871
Florida	1845	1855
Georgia	1863	1866
Kentucky (as to U. S. Bonds)	1867	1871
Louisiana	1865	1910
Maryland	1842	1850
Massachusetts	1843	1910
Missouri	1861	1866
North Carolina	1849	1910
Oklahoma	1908	1910
Pennsylvania	1841	1871
Rhode Island	1673	1750 (?)
South Carolina	1838	1868
“ “	1898	1910
Tennessee (as to U. S. Bonds)	1883	1910
Texas	1863	1871
Vermont	1777	1782
“	1778	1850
Virginia	1843	1910
West Virginia	1863	1864

(Where the year 1910 is given above, the intention is to state that the law is not yet repealed.)

It would lead too far to attempt to review in detail the experiences of all these states and only an outline of the methods adopted and results obtained will be given.

Alabama. The income tax law of this state began about 1844 with a tax of one-half of one per cent on the incomes of certain professional and salaried men. In 1848 the rate was raised to one per cent and the scope of the act somewhat extended. On the whole however it could hardly be called a general income tax until 1862, when it was made to include a tax of five per cent on the “net profits” of many forms of business and ten per cent upon the wages and salaries of certain men exempt from military service. The law contained the usual provision that persons failing or refusing to furnish a written statement under oath of their receipts, salaries, commissions and profits should be liable to fine or imprisonment or both. In 1864 the rates were raised and in 1866 a gen-

eral provision was incorporated in the law to the effect that "a tax of one per cent be levied upon the annual gains, profits, salaries and income in excess of \$500 received by any person within the State." In 1868 the amount exempted from the tax was raised to \$1,000, but in 1875 it was lowered to \$500. The rate, which had been raised to three-fourths of one per cent was reduced in 1881 to 65 cents on each \$100 and the exemption, which had been dropped in 1876, was restored and fixed at \$800. The working of the law however was so unsatisfactory that in 1883 the report of the State Auditor in recommending its repeal used the following language: "Taxes upon salaries, gains, incomes and profits are regarded with disfavor by almost every taxpayer, no matter how willing he may be to contribute his part to the support of the government of the state. Such taxes are, in the very nature of things, attained by processes inquisitorial in character and therefore to most persons exceedingly obnoxious. In addition to this the law authorizing them has never been and probably never will be properly executed and consequently does not bear equally alike upon all. * * * I do not hesitate, therefore, to give it as my opinion that it should be repealed." In 1884 the legislature passed an act requiring assessors in each county to levy the tax due upon salaries, profits and incomes that had escaped at any time during the preceding ten years, thus affording another instance of the naive manner in which legislatures expect to accomplish practical impossibilities by merely passing a law. The attempt to tax incomes was finally abandoned in 1884, although there are certain taxes upon gross incomes which have been retained and which are near the border

line between income taxes and licenses. The following table compiled from the Auditor's Reports for the respective years (by Doctor Kinsman), shows the amount of the tax upon incomes compared with the total state tax. We have added the percentage which the income tax bore to the total tax.

Year	Income Tax	Total State Tax	Percentage
1870	\$11,547.16	\$1,122,785.45	1. %
1872	8,269.07	767,193.38	1.07%
1875	3,778.54	459,263.59	.8 %
1879	8,109.46	790,000.00	1. %
1880	9,078.39	521,346.32	1.7 %
1881	11,705.48	620,805.81	1.8 %
1882	22,115.93	659,044.10	3.3 %
1883	14,362.59	610,782.18	2.3 %
1884	11,532.35	678,421.54	1.7 %

The bulk of the tax was always raised in the two chief cities in the state and during the last four years that the tax was in force an average of only 48 out of the 66 counties in the state levied any income tax.

Delaware. This state had a partial income tax from 1869 to 1871, consisting of a tax of two per cent upon the income from salaries or fees received by lawyers, physicians and all state and county officers, and upon the gross receipts of private bankers, brokers and real estate agents by way of commissions, profits, brokerage or other compensation for business transacted. In 1871 the law was repealed and a license tax substituted.

Florida. In 1845 a tax amounting to one-fifth of one per cent was levied upon the income of lawyers, doctors, public weighers of cotton and other produce, public inspectors and pilots, and in 1850 a tax of two per cent was levied upon the commissions of commission merchants and factors. The amounts collected under this law were insignificant and it was repealed in 1855.

Georgia. The experience of this state is quite interesting, because of the large amount which was raised—

an amount far in excess of that which has ever been raised by any other state; but the tax was essentially a war tax and it was dropped soon after the war was ended. The law, as introduced early in the year 1863 at an extra session of the legislature, was designed to provide pensions for dependent widows and orphans of soldiers and to provide for the support of disabled soldiers of the Confederate army.⁶ It was strictly a tax upon profits and the returns were required to show the capital invested as well as the amount of profit. If the net profit or income equaled twenty per cent of the capital invested a tax of one-half of one per cent was levied. If the income was between 20 and 30 per cent the rate was 1½ per cent and it then increased at a regular ratio; but the law was modified in December of the same year so as to require the following scale of rates:

If the net income or profits, above 8% of the capital stock, amounted to				The rate of tax was
\$ 10,000 or less				5. %
If between	10,000	and	15,000	7.5%
" "	15,000	"	20,000	10. %
" "	20,000	"	30,000	12.5%
" "	30,000	"	50,000	15. %
" "	50,000	"	75,000	17.5%
" "	75,000	"	100,000	20. %
" above	100,000			25. %

⁶. This law will be found on page 176 of Laws of Georgia, passed November and December, 1862, and March and April, 1863. The full rates were:

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"and so on in the same ratio of per cent profit and taxation *ad infinitum*." It is probable that the taxes of 1863 were collected under this law as the second law was not "assented to" until Dec. 14, 1863.

The somewhat drastic provision was added that any person failing to comply with the provisions of the act was subject to confinement in the penitentiary for not less than one year nor more than five years and the tax collector was required to assess a double tax upon the taxable income of said delinquent.

The yield of this tax would seem to have been very large. Doctor Kinsman, on the authority of Avery's History of Georgia (p. 267), has stated that the amount of income assessed in 1863 was \$15,737,479, and the tax collected was \$683,235. As these amounts seemed suspiciously large, we employed a competent person to examine the old records and were informed, not only that the above figures were correct, but that the profits above 8% taxed in 1864, amounted to \$22,247,092 and the tax to \$3,195,217.06 (!) As the number of income taxpayers is given as 3,758 the average income tax paid by each would be over \$850, which is certainly very remarkable, if true.

Kentucky. By a law passed in 1867, assessors were required to ascertain the amount of income received from interest on United States bonds and a tax of 5 per cent was assessed on the gross amount of said income. The amount collected under this law was at first quite large, but gradually diminished until the law was declared unconstitutional in 1872. The amounts collected are as follows:

Year	Amount
1868	\$118,526.80
1869	122,935.00
1870	78,299.00
1871	72,216.00

In holding the law unconstitutional the Court of Appeals used the following language:

It is true that when the interest is paid it ceases to constitute a part of the debt, and is then subject to be taxed by the state governments like other property held or owned by their citizens; and it is insisted that because the act quoted does not by its terms necessarily imply an intention to tax the interest accruing on Federal securities until it has been actually received by the taxpayer, it can be enforced without trenching upon any of the rights or exemptions secured to him as the holder of such securities.

It is a sufficient answer to this assumption that the tax imposed on the income or interest received from United States bonds by the act in question is ten times greater than that assessed on moneys received from other sources by the general laws of the state. If this discrimination can be constitutionally made, it results that it is within the power of the state governments to impose penalties upon their citizens for investing in the securities of the United States, and by means of such penalties to render nugatory the power of the government to borrow money within their respective territorial limits.⁷

Louisiana, though one of the first states to provide in its constitution for an income tax, did not levy such a tax until 1865. The law provided for a rate of one-fourth of one per cent on the amount of income in excess of \$2,000 annually received by all persons pursuing any trade, profession or occupation. The penalty for failing to make a return of income or to pay the tax was 20 per cent of the amount due.

In 1878 the rate was raised to thirteen mills upon "the excess of all annuities, salaries and incomes over \$1,000 derived from any source, except from property taxed." There has been no material change in the law since that time except that the rate was lowered to six mills on the dollar in 1882.

The law is unpopular and has become almost a dead letter on the statute books. In 1868, out of a state tax of \$508,378, the tax on income amounted to \$2,476

⁷. *Bank of Kentucky v. Commonwealth*, 9 Bush, 46.

or less than one-half of one per cent, and in 1899 only two counties returned any tax, the total amount paid being only \$104 out of a state tax of over \$2,000,000. It should be mentioned, however, that a graduated license tax based in part upon income has proved more productive.

Maryland. The experiences of Maryland with the income tax afford a striking illustration of the futility of laws which run counter to public sentiment. In 1842 a tax of $2\frac{1}{2}$ per cent was levied upon salaries and emoluments and all incomes and profits from professions, faculties and employments. There was an exemption of \$500 and the salaries of judges and clergymen, as also incomes received from property already taxed, were not to be assessed. A separate tax was levied upon ground rents to which however the \$500 exemption did not apply. The assessors were authorized to demand from every taxpayer a complete statement under oath of his income and a refusal to comply with this demand was punishable by a fine of not to exceed \$1,000. An effort was also made to provide for the collection of salaries at their source.

In spite of the penalties the law was practically ignored in many counties and the Governor's Message in 1844 referred to the "deplorable remissness in the execution of the tax laws." In 1850 the law was repealed "because of its inquisitorial character, its impertinent scrutinizing into the affairs of private life and of other difficulties which it had to encounter, and the frauds and imposition it caused and above all its utter failure to produce a sufficient sum." As to the amount of income taxes collected while the law was in force we

have been unable to secure any reliable data. It is evident however that it was very small.

Doctor Richard T. Ely, who was a member of the Maryland Tax Commission of 1888, presented a supplementary report in which he made a strong argument for a state income tax, but his suggestion was not adopted.⁸

Massachusetts is often cited as a State which has had income taxes for 250 years and as one of the four states which has such a tax at present; but we have seen that Seligman denies that the early taxes were properly income taxes and, as to whether the present tax can be called an income tax in the usual acceptation of the term, there is perhaps room for argument.

In the present tax law of the state is is provided that: "Personal estate for the purposes of taxation shall include: * * * Fourth. The income from an annuity and the excess above \$2,000 of the income from a profession, trade or employment accruing to the person to be taxed during the year ending on the first day of May of the year in which the tax is assessed. Income derived from property subject to taxation shall not be taxed."

This is all there is of the law and it simply amounts to a requirement that receipts from annuities, personal services and non-taxable securities shall be considered in the assessment of personal property. It will be seen that there is no fixed rate upon income, but it is taxed at the same rate as other property. There have been but few changes in the law during the past one hundred years. By a law passed in 1849 the legislature provided for an exemption of \$600 from the income derived from any

⁸. We are informed by Doctor Ely that he has changed his opinion as to State income taxes and no longer advocates them.

profession, trade or employment. In 1866 the exemption was increased to \$1,000. In 1871 and 1873 efforts were made to repeal the law and in the latter year, as the result of a compromise, the exemption was fixed at \$2,000.

The provision of the law exempting incomes derived from property subject to taxation permits of a wide latitude of interpretation and has been utilized to a very large extent as a means of evading the tax. For example, in Boston, it has been customary to treat income as exempt which had been saved and invested in taxable property or securities. In a case which arose in 1869, where a merchant sought to avoid the payment of the income tax on the ground that the stock of goods which he had on hand on the first day of May was all taxed, the Supreme Court held that the income was the product of many combined influences, some of which it named and was in short "a combination of capital, industry and skill." It was, therefore, held that the "tax which has been assessed upon the petitioner is not for an income derived from specific goods and merchandise; but for income derived from the business of dealing commercially in the like goods and merchandise with such a degree of skill, judgment and good fortune that his share of the year's products amounts to the sum which he returned as his income from business."⁹

⁹. Wilcox vs. County Commissioners of Middlesex, 103 Mass. 544.

This decision gave rise to much dissatisfaction among merchants and business men generally as is indicated by the following quotation from an address by Jonathan A. Lane, President of the Boston Merchants' Association, at a meeting of the Boston Executive Business Association April 20, 1891.

"Of course, this decision obliterates the distinction made between two classes; virtually repeals the act declaring that one class shall

Another cause for the failure of the tax in Massachusetts is the fact that the tax is not collected by the state, but the total amount of state tax is apportioned to the local taxing units and they are left free to enforce it or not, as they please, the state officials being indifferent so long as the total amount of state tax is raised. The result is that no effort is made to enforce the tax in the great majority of the cities and towns. A statement which was made up at the request of the Special Tax Commission of 1875, for the year 1873, showed that out of 340 towns 273 reported no income assessed and 17 were not heard from. The Tax Commission of 1897 requested all the cities of the state to report their assessment of personal property and of the 32 cities, all except Boston and Summerville responded. It appeared from these reports that the total assessed valuation of personal property in the 30 cities for the year 1895 was \$194,783,-718, but of this sum \$3,880,220, or less than 2 per cent of the *personal property* was assessed as income. Nine cities reported no income and the two cities of Medford and Springfield reported nearly one-half of the whole amount.¹⁰

not be taxed upon both the property and income therefrom; is contrary to the obvious meaning of the language and intent of the law; does great injustice to the tax-paying business men; strikes all fair-minded persons as an outrage upon the common sense and intelligence of the State; and it results in a kind and degree of double taxation, without a parallel in these United States, so far as we have been able to learn."

10. Report of the Commission appointed to inquire into the expediency of revising and amending the laws of the Commonwealth relating to taxation, 1897, p. 104. Upon the question of State income taxes in general the following conclusion is reached: "We fear that no effective public opinion would be present to aid the administration of a State income tax, and that evasion and concealment would take place to so great an extent as to render it ineffective and deservedly unpopular."

On account of the method by which the income tax is merged with other personal property taxes, no accurate statistics of the amount of taxes collected can be obtained, but it is probable that the tax has rarely exceeded \$100,000 in any one year.

The fact that the income tax is considered as simply one of the many forms of personal property and is not taxed separately accounts in a measure for the poor success which has attended its enforcement. In Massachusetts, as in every other state, the attempt to tax personal property has been practically a failure. The Special Committee on Taxation of the Boston Executive Business Association, in a report made October 21, 1889, expressed themselves somewhat passionately on the subject as follows:

Your committee have not the quality of omniscience,—we thank God that he alone possesses this divine attribute,—but your committee do know, of their own knowledge, facts in regard to the disproportion, inequality, injustice, and oppression of taxation on personal property in the State of Massachusetts that, in comparison with the methods and results under the Sultan of Turkey, Shah of Persia, or any other despotism of the Old World, would afford these Oriental monarchs the greatest complacency, and should mantle the cheek of Massachusetts with shame.

The same Committee gave their opinion of the income tax in the following words:

Your committee do not hesitate to unqualifiedly condemn the present income tax upon business, stocks of goods, and capital in trade, because it is plain violation of law, which forbids the taxing of income derived from property subject to taxation. They heartily admit that an income tax from profession, trade, or employment, or from personal property not subject to taxation (in excess of present limitations, two thousand dollars), would be right. But so great is the prejudice against an income tax of any sort, so strong the temptation to evade it, and so inquisitorial is the method

of enforcing its obligation, that we deem it good policy to put it aside, and to rely upon methods of taxation which shall be more simple, sensible and reasonable, and which would command the more cheerful assent of all the people.

The special tax commission of 1875 gave the subject very careful attention and admitted that the law worked hardship, inequality and injustice, but they were not wholly prepared to abandon the idea of income taxation and they expressed the opinion that "However unpopular the income tax is—and we admit it is extremely so—and however irregular and inefficient its administration, all of which in the actual fact it would be difficult to exaggerate,—it seems that no one can clearly understand this tax without admitting both its economy and its justice." The recommendations were: First, that the exemption be lowered to \$1,000; second, that no deductions should be permitted for income invested either in taxable property or otherwise; third, that as to property employed in business, a deduction of 6 per cent of the assessed value of the property should be allowed; and, fourth, that a supervising department of taxes should be established. In spite of the excellence of these recommendations they were not adopted.

The Massachusetts Tax Commission of 1897, which was composed of very able men and which prepared a report of great value, practically admitted the complete failure of the income tax and recommended in lieu of it a tax on occupants of houses having a rental value of more than \$400 a year. The rate of taxation was to be 10 per cent upon the excess of rental value over \$400, so that a person occupying a house the rental value of which was \$500 would pay a tax of \$10 a year. It should be

stated, however, that this proposition was not endorsed by the full commission and the Massachusetts Legislature has not as yet taken any action upon it.

On the whole it must be conceded that the experiences of the State of Massachusetts in attempting to tax incomes, in spite of the fact that those experiences extend over so long a period, are of such a character that they form no proper basis for an argument either for or against state taxation of incomes.

Missouri. The income tax in Missouri which was in force from 1861 to 1865 was essentially a war tax. As at first levied it applied to salaries in excess of \$800 and to income "derived from public stocks, bank stocks, stocks of chartered companies or from other property, real or personal, not taxed in the state." The rate was thirty-two cents on \$100, which was lowered in 1864 to one-fifth of one per cent. The exemption was reduced at the same time to \$200. In 1865 the rate was raised to three per cent on salaries of officials exempt from military duty by reason of their offices and two per cent on other salaries. The exemption was also raised to \$600 and it was provided that the sum produced by the tax should be paid into the Union Military Fund. In case of failure to make a sworn return of the amount of income the assessor was authorized to value the income at double what he had reason to believe it ought to be.

North Carolina. This state has had an income tax for sixty years and the law has been materially changed over twenty times. To trace the history of all these changes would hardly serve a useful purpose as the various laws have been so loosely administered that no deductions can be drawn as to their relative merits. Both

progressive and proportional taxes have been tried and differentiation and classification have been carried further than in any other state.

The original law of 1849 levied a three per cent tax on interest and profits from certain investments. There was a \$60 exemption and a tax of \$3.00 on salaries over \$500. The plan of levying separate rates upon salaries is one which seemed to meet with favor as it was persistently followed for half a century. In 1851 this portion of the tax was given a progressive character by a provision that all persons except clergymen, the Governor and Judges of Supreme and Superior Courts should be assessed \$2.00 for salaries between \$500 and \$1,000 and \$2.00 for every additional \$500. In 1855 the rate on interest was raised to four per cent, and numerous minor changes made in the law. The extent to which classification was carried may be seen by the law of 1863. The tax on salaries was left as in 1851, except that the exemption was raised to \$1,000 and it was not to apply to certain military officers and public officials. The rate on profits or interest from capital invested in banks was fixed at eight per cent. Ten per cent was levied upon the income of "Note Shavers" and brokers. Twenty per cent was the rate upon profits of liquor dealers who brought liquors into the state or bought from non-residents, while dealers in liquors distilled in the state paid ten per cent and hotel keepers one per cent. Five per cent was levied upon the net profits received from the purchase and sale of articles brought into the state through the blockade or bought in Northern states. A rate of two per cent was levied upon net profits of moneys invested in sundry manufactures or in steamboat or railroad companies.

These instances will perhaps suffice to show the extent to which classification of sources of income was carried. The rates experienced many changes which we shall not attempt to mention in detail.

In 1866 salaries or fees in excess of \$500 were taxed one per cent and a progressive rate was applied to general profits as follows:

Incomes above \$	500	and less than	\$1,000.....	1 %
"	"	1,000	" " "	2,000.....1½%
"	"	2,000	" " "	3,000.....2 %
"	"	3,000	" " "	4,000.....2½%
"	"	4,000	" " "	5,000.....3 %
"	"	5,000		3½%

In 1867 the law reverted toward a proportional rate, general profits being subjected to a tax of one-half of one per cent on amounts from \$500 to \$3,000 and one per cent on incomes of \$3,000 or more. In 1869 the law was still further simplified by providing a tax of two one-half per cent upon annual net income and profit from any source whatever except from property already taxed. In 1870 this rate was lowered to one and one-half per cent. In 1885 the deductions and exemptions, which had been specified in detail and limited to a total of \$1,000, were given a maximum limit of \$1,500.

The progressive rate was again adopted in 1893 and re-enacted with slight changes in 1895, 1897 and 1899. There was considerable popular prejudice against the progressive system and in 1901 a strictly proportional tax on incomes above \$1,000 was adopted. The law experienced slight changes in 1903, 1907 and 1909. As it now stands the rate is one per cent on all *gross* incomes in excess of \$1,000 and the law further provides that "the incomes subject to the above tax are those derived from property not taxed; from salaries, fees and commissions,

public or private; from annuities; from trades or professions and from any other sources the incomes from which are not specifically exempt from taxation by law." Cities, towns, townships and counties are expressly prohibited from levying income or inheritance taxes. All taxpayers are required to list their incomes and penalties are prescribed for divulging or publishing the amounts of individual income.

The results of the tax have been disappointing, the largest amount produced by the tax having been \$36,829.44 in 1907. A table showing amounts collected and total state taxes for many years will be found in Appendix E.

Oklahoma. The income tax law for this state which was passed May 26, 1908, has at least the merit of brevity. It provides that at the time of making the assessment of real and personal property, the assessor shall demand of each person a statement of his income in so far as it exceeds \$3,500. The blank for such a tax contains the question, "Was your gross income from salaries, fees, trade, profession and property upon which a gross receipt or excise tax has not been paid, any and all of them, for the year ending June 30th last preceding, in excess of \$3,500?" If the person answers the question in the affirmative he is to be furnished by the assessor with a blank in the following form:

To the State Auditor of the State of Oklahoma:

I hereby certify that my income from salaries, fees, trades, professions and property upon which a gross receipt or excise tax has not been paid, any and all of them, for the

year ending June thirtieth, in excess of three thousand five hundred dollars was \$.....

I.....being duly sworn do certify that the foregoing certificate is true to the best of my knowledge and belief.

Subscribed and sworn to before me this.....day of.....

.....,
Assessor.

The assessor forwards the certificate to the State Auditor who certifies to the proper county clerk the amount of the tax due upon the income so reported, and the same is then extended on the tax rolls in the same manner as other property. The assessor of each township is required to furnish the State Auditor a list of all persons who are subject to the tax and who have made the above declaration, together with the names of other persons who, in his opinion, may be liable for income tax; and the State Auditor is given power to subpoena witnesses and take other steps to ascertain whether such persons ought to make returns. The rates levied may be seen by the following table:

Incomes	Tax on \$1.00	Percentage
\$ 3,500 to \$ 5,000	5 mills	$\frac{1}{2}$ of 1%
5,000 " 10,000	$7\frac{1}{2}$ "	$\frac{3}{4}$ " 1%
10,000 " 20,000	12 "	1 $\frac{1}{5}$ %
20,000 " 50,000	15 "	$1\frac{1}{2}$ %
50,000 " 100,000	20 "	2%
100,000 and above	$33\frac{1}{3}$ "	3 $\frac{1}{3}$ %

It should be noted that these rates are levied upon *gross* incomes. The only exception occurs in the case of interest derived from property upon which a gross receipt or excise tax has been paid. It is made unlawful to print or publish in any manner any income tax return or any part thereof, and penalties are provided for false swearing or failure on the part of the assessor to perform his duty.

A notable feature of this law is the unusually high exemption, which will probably prevent its application to the great majority of the inhabitants of the state. The population of the state in 1900 was 790,205 and the next census will no doubt show it to be over one million. We venture the prediction that the tax will be paid by less than one thousand people, and possibly by less than one hundred.

The income tax proper is levied for the benefit of the common school fund, and the amount certified to the county clerks by the State Auditor in 1909 was only about \$1,500 out of a total *ad valorem* state tax of \$1,953,285. It is unlikely that even that small amount was actually collected, as there was some doubt as to the legality of the tax owing to the fact that the law (as to the first year's tax) seemed to apply to a period prior to the organization of the state government (November 16, 1907) and an act had been passed remitting the state taxes for 1907. The amount collected in 1909 cannot therefore be considered as any criterion of what will be raised by the tax hereafter.

The definition of the term "gross income" is likely to play an important role in the administration of the tax. If interpreted to mean "gross receipts" the tax may prove very burdensome to farmers, merchants and manufacturers who may receive and disburse large sums in the course of a year without realizing much or any profit.

In addition to the income tax proper, there is a graduated land tax which is supplemental to the *ad valorem* tax and is based upon the average value of farm land. According to the terms of this act, which assumes the

average value of farm lands to be \$20 an acre, a supplementary tax is levied as follows:

Over 640 acres in value (\$ 12,800)	not to exceed 1,280 acres—	.25%
" 1,280 " " " (\$ 25,600)	" " " 3,000 " —	1%
" 3,000 " " " (\$ 60,000)	" " " 5,000 " —	2%
" 5,000 " " " (\$100,000)	" " " 10,000 " —	5%
" 10,000 " " " (\$200,000)	" " " 25,000 " —	10%

This, it is true, is not an income tax, but it becomes such in the case of leased lands, as a person holding such lands under lease or contract of rental is taxed upon his "income, rents or profits" from holdings as follows:

In excess of 640 acres not exceeding 1,280 acres	1%
" " " 1,280 " " " 2,500 "	3%
" " " 2,500 " " " 5,000 "	5%
" " " 5,000 " " " 10,000 "	10%

It is provided that this tax shall be "in addition to other taxes levied, charged and collected" so that the result would be as to a person leasing 10,000 acres (assuming the value to be \$20 an acre, the ad valorem tax, say, 3%, and the profit 10%), that he might be called on to pay an *ad valorem* tax of \$6,000, an income tax of \$198, and a graduated land tax of \$2,000, being a total of \$8,198, or nearly 41 per cent of his whole income. These rates are of course prohibitive and the law was no doubt framed more with a view to prevent large holdings than to secure revenue.

Pennsylvania. The first attempt to levy taxes upon incomes was made in 1817, but proved abortive. In 1841 a tax of one per cent was levied upon salaries and fees, and the following year the rate was increased to two per cent with a rate of one per cent upon income from trades, occupation or professions. The amount exempted was \$200. The law remained in this form with but slight changes until it was repealed in 1871. The results attained by the tax are not known as the tax was not re-

ported upon separately. The Governor's Message for 1844 contained a statement that, out of total state revenues of nearly a million dollars the income tax contributed only \$1,386.

Mention should be made however of another tax which proved more successful and which might be described as a corporation income tax. Beginning in 1835 as a graduated tax upon bank dividends, it finally developed into a simple proportional tax of three per cent upon the annual net earnings or income of all corporations. This tax is all collected at the source, the companies being required to pay it directly to the state. According to Kinsman, the tax meets with general approval and yields about one-half of the total revenue of the commonwealth; but the statement as to the yield of the tax would seem to be erroneous as we are informed by a letter from the Auditor General that the total amount collected from this tax for the year ending November 30, 1909, was only \$44,533.29.

South Carolina. With the exception of the years 1868 to 1897, South Carolina has had a continuous experience with faculty and income taxes extending over a period of 209 years, though it was not until the time of the Civil War that the law began to assume the form of a general income tax. In 1861 a tax of one per cent was levied on certain specified professional incomes, and on salaries over \$500. In 1864 the tax on wages and salaries was repealed, but it was re-enacted with some changes in 1866. When the new constitution was adopted in 1868, the income tax was dropped and nearly thirty years elapsed before any serious attempt was made to introduce it again.

The constitution of 1895 provided for "a graduated tax on incomes and for a graduated license on occupations and business." In 1896 an attempt was made to pass an income tax law, but the bill was defeated. In the following year a new bill was introduced which met with determined opposition and occasioned much public discussion. While a majority of the legislature favored the law there was great diversity of opinion as to what should be the rate and the amount of exemption. The law was finally passed in March, 1897, with a provision that it should go into effect January 1, 1898. The rates were fixed at one per cent on all "gains, profits or income" above \$2,500 and up to \$5,000; one and one-half per cent on amounts from \$5,000 to \$7,500; two per cent on \$7,500 to \$15,000 and three per cent on all over \$15,000. While the word "income" was to be taken as meaning "gross profits" it was provided that there might be deducted the necessary expenses actually incurred in carrying on the business or profession. The amount to be raised was apportioned among the counties and levied and collected at the same time and in the same manner as other taxes.

Strenuous efforts to repeal the law were made in 1900 and 1901 and bills for that purpose were passed unanimously in the lower house, but met with defeat in the Senate.

The Report of the Comptroller General for the year 1909 gives the yield of the tax as follows:

1898,	\$ 689.55	1904,	\$ 1,281.26
1899,	4,829.63	1905,	2,130.61
1900,	975.37	1906,	12,201.42
1901,	609.22	1907,	10,687.34
1902,	292.08	1908,	8,431.52
1903,	1,476.74	1909,	16,236.57

Texas. A partial income tax of one-quarter of one per cent on salaries in excess of \$500 was levied as a war measure in 1863. The amount raised was very small and in accordance with a recommendation of the Governor in 1866, a general income tax bill was passed, which provided for the following rates on net income:

On first \$1,000.....	1	%
“ second \$1,000.....	1½	%
“ third, fourth and fifth \$1,000.....	2	%
“ all above \$5,000.....	3	%

As was customary in the southern states at that time, salaries were not treated as incomes, but were taxed separately, the rate being one-half of one per cent on the excess over \$600. The law made quite elaborate provisions for ascertaining net incomes and among the many deductions specified, there was one which perhaps deserves mention as being rather unusual. Profits on real estate purchased within the year were treated as income, but a deduction was allowed for any losses sustained on real estate purchased during the same year.

In spite of the care with which the law was drawn it seems to have fallen into disuse and was soon supplanted by license taxes on occupations and other forms of taxation.

In 1909 a bill taxing incomes in excess of \$2,000 at the rate of one per cent was passed by the lower house but was killed in the Senate.

Tennessee. By Chapter 106, Laws of 1883, income derived from shares of stock in any corporation exempt by its charter from *ad valorem* tax, or from bonds exempt from taxation generally, was declared taxable and the rate fixed at 5 per cent. Chapter 120 of the Laws of 1895, Section 9, subd. 10, provided that the amount of

income derived from United States bonds and all other stocks and bonds not taxed *ad valorem* should be taxable. The rate was fixed at 5 per cent. This provision is repeated in Section 8, Chapter 258, Laws of 1903, and does not appear to have been repealed.

Virginia. The experiences of this state with the income tax extend over a continuous period of 67 years. During that time nearly every imaginable variation upon the tax has been tried. As has been well said, "The history of the tax is the history of a confused mass of legislation," and any attempt to follow out that history in detail would prove wearisome and unprofitable.

Nevertheless, in spite of the complexities and imperfections of the laws, the experience of Virginia is notable in that it has probably resulted in raising a larger sum in the aggregate from *State* income taxes than has been raised by that means in any other state. I have not been able to secure the statistics for all the years, but it seems safe to say that a total of over three million dollars has been collected.

As originally adopted in 1843 the law imposed a tax of one per cent upon incomes in excess of \$400 received for personal services, and two and one-half per cent upon interest in excess of \$100 received from investments, thus recognizing the distinction between "earned and unearned incomes." The principle of differentiation, as in the case of North Carolina, was carried to great lengths and changes were constantly being made in the rates. In fact all the subsequent legislation on the subject betrays the same naive assumption which is common to state income tax laws generally, namely: that it is only necessary to fix by legislative enactment the exact rates to be levied and the administration of the law will take care of itself.

In 1862 and 1863, owing to the necessities of the war period a wider scope was given to the tax and the rates materially raised with the result that the collections reached high water mark in 1863 when they amounted to \$178,944.92. At this period salaries were taxed two and one-half per cent on the amount in excess of \$500. Seventeen per cent was levied upon income from toll-bridges and ferries, and ten per cent upon net profits received from trade, business, use of money and the like. There was also a tax upon dividends of corporations, levied at the source, as in Pennsylvania. It must also be remembered that the Southern Confederacy levied a general income tax in 1863, with rates ranging from two per cent on salaries to fifteen per cent on incomes over \$10,000, and sixteen and two-thirds per cent on profits of joint stock companies in excess of twenty per cent. In view of the devastations wrought by the war in Virginia the relatively large amounts collected for income taxes at this period afford a striking proof of the loyalty and devotion of the people.

Of the great number of variations which the law has experienced perhaps the most notable was the change made in 1866 by which a system of five schedules, corresponding somewhat with those of the English income tax, were adopted. Schedule D, which referred exclusively to incomes, was divided into six sub-classes. Different rates and exemptions were applied to these sub-classes and, as salaries were in a separate schedule, receiving still different treatment, the law became very complicated and correspondingly difficult of enforcement.

As a result the amount of collections dropped to about \$23,000, and in 1870 the present method of assessing and

taxing incomes was introduced. At that time also the somewhat hazardous plan of defining income in detail was adopted. Passing by numerous changes made in the law during the seventies and a few in later years, the law now in force, may be summarized as follows:

A tax of one per cent is levied upon the aggregate amount of income in excess of \$1,000 whether received, or due and not received, within the year next preceding the first of February.

Income is divided into five classes:

1. All rents (except ground rents and rents-charge), salaries, interest upon notes, bonds or other evidences of debt * * * collected or received during the year less the interest due and paid during the year.

2. All premiums on gold, silver and coupons.

3. The amount of sales of live stock and meat of all kinds less the value assessed the previous year by the commissioner of the revenue.

4. The amount of sales of various agricultural products (specified in detail), less all sums paid for taxes and labor, fences, fertilizer, seed, etc., purchased and used upon the land and the rent paid for the land if the person be not the owner thereof.

5. All other gains and profits derived from any source whatever.

In addition to the \$1,000, the deduction mentioned above, it is also provided that all losses sustained during the year may be deducted, but only one deduction of \$1,000 can be made from the aggregate income of any family, except that guardians can make a separate deduction of \$1,000 in favor of each ward out of the income of such ward.

The results which have been obtained under the Virginia system may be seen by the following table taken from the Auditor's Reports for the respective years:

Year	Income Tax	Year	Income Tax
1887	\$38,950.84	1898	\$43,204.72
1888	38,144.80	1899	54,148.38
1889	45,906.69	1900	46,023.66
1890	51,246.69	1901	59,251.55
1891	62,206.70	1902	60,356.57
1892	54,154.44	1903	64,781.39
1893	51,700.12	1904	70,953.54
1894	40,943.41	1905	77,414.23
1895	43,026.26	1906	94,291.43
1896	42,377.81	1907	122,056.77
1897	37,502.27	1908	102,810.50

West Virginia. The income tax adopted by this state in 1863 was modeled after the law in force in Virginia at that time. Five per cent was levied upon interest on bonds of corporations, states and counties and a low progressive rate upon incomes received from any office or employment. To a considerable extent the law was a combination of income and license taxes and it was amended in December, 1863, so that those liable to the combined tax were exempt from the income tax. The law soon became a dead letter so far as incomes were concerned and no attempt has ever been made to revive it.

CONCLUSION.

In closing this imperfect sketch of state income taxes I cannot perhaps do better than to quote a few sentences from Kinsman's excellent book on the subject in which he sums up his conclusions as follows:

The experience of the states with the income tax warrants the conclusion that the tax, as employed by them, has been unquestionably a failure. It has satisfied neither the demands for justice nor the need of revenue. The question arises: Is this failure due to qualities inherent in the nature of the tax, or is it the result of conditions which may be

removed? One of the fundamental principles of taxation is that the subjects of a state ought to contribute to the support of the government in proportion to their respective abilities, and it is generally agreed that these abilities are best measured by income. Therefore, theoretically at least, an income tax is unquestionably the fairest system yet proposed. Throughout the history of the tax in the several states the opposition has never seriously attacked it from a theoretical standpoint. * * *

A careful study of the history of the tax leads one to the conclusion that the failure has been due to the administration of the laws. This conclusion is borne out by both the admissions of the advocates and the assertions of the opponents of the tax, and is corroborated by the reports of tax commissions. * * *

As the result of our study we conclude that the state income tax has been a failure, due to the failure of administration, which, in turn, may be attributed to four causes—the method of self-assessment, the indifference of state officials, the persistent effort of the taxpayers to evade the tax, and the nature of the income. The tax can not be successful so long as taxpayers desirous of evading taxation are given the right of self-assessment. Since all attempts to change the method of self-assessment have failed and the nature of industry in the states is at present such as to make impossible the assessment of a general income tax at the source, we are forced to the conclusion that, even though no constitutional questions should arise, failure will continue to accompany the tax until our industrial system takes on such form as to make possible the use of some method other than self-assessment.

CHAPTER XII.

UNITED STATES. FEDERAL INCOME TAXES.

A. THE CIVIL WAR INCOME TAX.

The first and practically the only experience of the Federal Government with income taxation occurred during the period of 1861-1872.¹ The so-called Civil War income tax of that period presents many interesting features, but should not be looked upon as affording any reliable criterion of what could be accomplished by

1. A tax on carriages was levied in 1796, but the Supreme Court, in the now famous case of *Hylton vs. the United States*, 3 Dallas, 171, held that this was not a direct tax, but an excise. The first direct tax was one levied on houses in 1798; but it could hardly be called an income tax, although it may have aimed to reach incomes upon the assumption that the value of a man's house is a fair index of his ability to pay. The law consisted of a progressive percentage tax in accordance with the following scale:

tax in accordance with the following scale:										
Houses valued from \$	100	to \$	1,000	were taxed at the rate of	0.2%					
"	"	"	1,000	"	"	"	"	"	"	0.4%
"	"	"	3,000	"	6,000	"	"	"	"	0.5%
"	"	"	6,000	"	10,000	"	"	"	"	0.6%
"	"	"	10,000	"	15,000	"	"	"	"	0.7%
"	"	"	15,000	"	20,000	"	"	"	"	0.8%
"	"	"	20,000	"	30,000	"	"	"	"	0.9%
"	"	"	30,000	upwards	"	"	"	"	"	1. %

An income tax designed to raise \$3,000,000 was proposed by Secretary of the Treasury Dallas, January 17, 1815, but his suggestion was not adopted. See *American State Papers*, Vol. II, p. 887.

similar laws in times of peace. It is impossible to estimate the extent to which the patriotic impulses of the northern people contributed to the comparative success of the tax; and it is impossible to say what the results of the law would have been if it had been less crudely drawn and had not been subject to constant changes. It must be remembered that there was not one statute which could be called *the* Income Tax Law, but a succession of laws and amendments varying so widely as to show conclusively their tentative and experimental character. The first law, which served in some respects as a model to all that followed, was evidently drawn in great haste by men who were unfamiliar with the subject.

On July 4, 1861, Congress was convened in extraordinary session by President Lincoln. Secretary Chase in his report on the finances was able to make provision for all of the amount then supposed to be needed, except twenty million dollars which he proposed to raise "by a direct tax, or from internal duties or excise, or both." On July 16, Mr. Thaddeus Stevens, chairman of the House Committee on Ways and Means, reported a revenue bill which contained a provision for a direct tax of thirty million dollars to be apportioned to the states on the basis of population; and on the following day submitted a resolution which was adopted, providing that all debate on the bill by the committee should cease in one hour after its consideration was commenced, after which the committee should proceed to vote on amendments.

The proposition for a direct tax met with much opposition and an income tax was suggested as a substitute. The bill was amended so as to reduce the direct tax from \$30,000,000 to \$20,000,000 and provision was made for

a tax of 3 per cent on all income over \$600 after which the bill was passed July 29, 1861. In the meantime however the matter was under consideration in the Senate. Mr. Simmons, chairman of the Committee on Finance, offered an amendment imposing a tax of 5 per cent on income over \$1,000. This amendment was accepted with but little debate, Mr. Simmons stating that the Committee had followed the law, rule and practice in England where a similar tax had been in force for fifty years.² As the House Bill and the Senate amendment were passed upon the same day the whole matter went to a Committee of Conference which, after brief debate, adopted a complete substitute for the original House Bill. This substitute included some of the Senate provisions in a modified form. The report was adopted on the same day by the Senate by a vote of 34 yeas to 8 nays and the act became a law August 5, 1861.³

While the law thus hastily passed was superseded by a subsequent act before it went into operation, it is interesting as indicating the views of Congress at that time as to the form which an income tax should take. It was not a separate and distinct law, but only a portion of the general revenue act, and the most important portion (§49) read as follows:

That from and after the first day of January next there shall be levied, collected and paid, upon the annual income of every person residing in the United States, whether such income is derived from any kind of property, or from any profession, trade, employment, or vocation carried on in the

². Mr. Simmons was mistaken, as the English Income Tax law had been in force only eighteen years and one could search the American Income Tax law in vain for any point of resemblance to the English law.

³. 12 Stat. at Large Ch. 45, p. 309, §§ 49-51.

United States or elsewhere, or from any other source, if such annual income exceeds the sum of \$800, a tax of 3 per centum on the amount of such excess of such income above \$800: Provided, that upon such portion of said income as shall be derived from interest upon Treasury notes or other securities of the United States, there shall be levied, collected and paid a tax of $1\frac{1}{2}$ per centum. Upon the income, rents or dividends accruing upon any property, securities or stocks owned in the United States by any citizen of the United States residing abroad, there shall be levied, collected and paid a tax of 5 per centum, excepting that portion of said income derived from interest on Treasury notes and other securities of the Government of the United States, which shall pay $1\frac{1}{2}$ per centum. The tax herein provided shall be assessed upon the annual income of the persons herein named for the year next preceding the time for assessing said tax, to-wit: the year next preceding the 1st of January, 1862, and the said taxes, when so assessed and made public, shall become a lien on the property or other sources of said income for the amount of the same, with the interest and other expenses of collection until paid: Provided, that in estimating said income all National, State or local taxes, assessed upon the property from which the income is derived, shall be first deducted.

As Congress was to meet again in December and it was generally understood that some modifications were likely to be made in the law, the Secretary of the Treasury took no steps towards its collection and in his annual report commended the "prudent forecast which induced Congress to postpone another year the necessity of taking steps for the practical enforcement of the law," thus affording "happily the opportunity of revision and modification." He further recommended that the direct tax be increased to the original sum of thirty million dollars and that fifty million dollars be raised by internal taxation without resorting to an income tax. This report was presented on the 9th of December, 1861, but no action seems to have been taken until March 12, 1862, when the Committee of Ways and Means reported an internal

revenue bill, which included a tax of 3 per cent on incomes above \$600. It was estimated that the income tax thus provided for would produce about five million dollars of revenue. The tax seems to have been levied as a sort of dubious experiment and the attitude of Congress toward it was probably reflected to a considerable extent by Senator Morrill, who, in reporting the measure, said:

The income duty is one perhaps of the least defensible that, on the whole, the Committee of Ways and Means concluded to retain or report. The objection to it is that nearly all persons will have been already once taxed upon the sources from which this income is derived. There are few persons in the country who have any fixed incomes for a term of years. The income tax is an inquisitorial one at best; but upon looking at the considerable class of State officers, and the many thousands who are employed on a fixed salary, many of whom would not contribute a penny unless called upon through this tax, it has been thought best not to wholly abandon it. Ought not men, too, with large incomes to pay more in proportion to what they have than those with limited means who live by the work of their hands or that of their families?

The revenue bill as proposed by the House did not make any material change in the law of 1861, but when the bill reached the Senate, Mr. Fessenden, chairman of the Committee on Finance proposed an amendment limiting the 3 per cent rate to incomes under \$10,000 and making the rate 5 per cent on incomes over \$10,000 and 7½ per cent on those over \$50,000, the exemption being fixed at \$600. These higher rates, which mark the beginning of the progressive principle, were probably deemed necessary in view of the fact that the assessment of the direct tax had been suspended for two years. The act was finally passed with a provision repealing the previous law.

It was signed July 1, 1862,⁴ and was therefore the first Federal income tax law to go into actual operation. The first section (90) followed to some extent the wording of the previous act, except that "annual gains, profits or income" was substituted for "annual income," the word "tax" was changed to "duty," and citizens residing abroad who were in the employ of the United States government were exempted from the 5 per cent tax. The rate on incomes generally which had been fixed by the Senate at $7\frac{1}{2}$ per cent on incomes over \$10,000, was modified in Committee of Conference so that the law, as finally passed, provided for 3 per cent on incomes from \$600 to \$10,000 and if the amount of income exceeded \$10,000 "a duty of 5 per centum on the amount thereof exceeding \$600." The effect of this provision was to exempt \$600 from incomes above as well as below \$10,000; though, as in the previous act, the \$600 exemption was not granted as to the 5 per cent tax on incomes of citizens residing abroad.

The act of 1861 apparently referred to gross income, but section 91 of the act of 1862 provided that, in estimating the annual gains, profits, or income, there should be deducted:

a. National, state and local taxes upon the property or source of income.

b. All gains, profits, or income derived from salaries of officers, or payments to persons in the civil, military, naval, or other service of the United States, including senators, representatives, and delegates in Congress, above six hundred dollars, or derived from interest or dividends on stocks,

⁴. 12 Statutes at Large. Ch. 119, p. 473, §§ 90-93. The earlier portions of this chapter constitute the Tariff Act. §§ 81, 82 and 86 contain provisions for collecting the tax on dividends, etc., at the source.

capital, or deposits in any bank, trust company, or savings institution, insurance, gas, bridge, express, telegraph, steamboat, ferry-boat, or railroad company, or corporation, or on any bonds or other evidences of indebtedness of any railroad company, or other corporation, which shall have been assessed and paid by said banks, trust companies, savings institutions, insurance, gas, bridge, telegraph, steamboat, ferry-boat, express, or railroad companies, as aforesaid, or derived from advertisements, or on any articles manufactured, upon which specific, stamp or ad valorem duties shall have been directly assessed or paid.

This sentence is given in full because its meaning is somewhat obscure. The construction placed upon it by the Commissioner of Internal Revenue was as follows:⁵

The following deductions will be made from the aggregate income of each person and the tax assessed upon the remainder, viz.: * * * Salaries of officers, or payments to persons in the service or employment of the United States from which a deduction of three per cent has been made by the disbursing officers of the government.

Interest or dividends on stock, capital or deposits in any bank, trust company or savings institution, insurance, railroad company or corporation, from which interest or dividends a duty of three per cent. shall have been withheld by the officers of such companies, corporations or associations; interest from any bonds or other evidence of indebtedness of any railroad company or other corporation from which a duty of three per cent. shall have been deducted by the officers of such company or corporation; and receipts derived from advertisements on which a duty shall have been assessed or paid. Also the sum of \$600.

The law further provided that upon income derived from notes, bonds or other securities of the United States "there shall be levied, collected and paid a duty not exceeding one and one-half of one per centum, anything in this act to the contrary notwithstanding." It is not clear whether the exemption of \$600 was to be allowed in such a case or not, but as a matter of practice it

⁵. See Boutwell, Direct and Excise Taxation in the U. S., p. 197.

was. The lower rate on United States bonds was no doubt designed to make them more attractive to investors.

The act further provided that "duties on incomes" should be payable on or before June 30, 1863, and each year thereafter until and including the year 1866. The remainder of the act related to the duties of the collectors in assessing and collecting the tax.

It is significant that throughout the law the word "duty" is constantly used instead of "tax," the evident intent being to distinguish it clearly from the \$20,000,000 direct tax levied and apportioned by the law of Aug. 6, 1861.

The next revision of the income tax law is found in the general revenue act of June 30, 1864.⁶ The bill at first provided for a tax of 5 per cent on all incomes over \$600, but the House voted a rate of $7\frac{1}{2}$ per cent on amounts over \$10,000 and 10 per cent on the excess over \$25,000. This proposition gave rise to much discussion as to the equity and justice of a progressive tax—Senator Sumner being among those who favored the progressive principle. When the bill finally emerged from the Committee of Conference it provided for a 5 per cent rate from \$600 to \$5,000, $7\frac{1}{2}$ per cent from \$5,000 to \$10,000 and a 10 per cent rate for all incomes above the latter amount. It also made numerous changes in the provisions for the administration of the law and extended its operation "until and including the year 1870 and no longer." The bill was passed in this form, but before it went into effect it was amended by the act of March 3, 1865,⁷ which abolished the $7\frac{1}{2}$ per cent rate and pro-

⁶. 13 Stat. at Large Ch. 173, p. 281, §§ 116-123.

⁷. 13 Stat. at Large, Ch. 78, p. 479, § 1.

vided for a tax of 10 per cent on all incomes over \$5,000. These rates marked the highest point fixed by any of the laws and amendments.

In July, 1864, Congress by a joint resolution levied a supplementary income tax for the purpose of raising bounties. This tax applied to income of 1863 and consisted of a levy of 5 per cent on all incomes over \$600. The resolution was passed July 4, 1864,⁸ and the tax was to be assessed October 1, 1864. As it was additional to other taxes it had the effect to raise the total rate for income received in 1863 to 8 per cent on incomes between \$600 and \$10,000 and 10 per cent on incomes over \$10,000.

The law of June 30, 1864, was amended by the acts of March 3, 1865, March 10, 1866, and July 13, 1866, the amendments referring more specifically to details of administration.

In the latter part of the year 1866, it was evident that the finances of the government were in such a condition as to permit a reduction in taxation, and the act of March 2, 1867,⁹ raised the exemption to \$1,000 and provided for a uniform 5 per cent rate on all income in excess of that sum.

In 1870 the question of continuing the income tax was raised and the subject received more attention than had been accorded to it at any previous period. This was partly due to the report of special commissioner David A. Wells, who recommended the reduction of the rate to 3 per cent, claiming that fully as much could probably be raised at the lower figure as on a 5 per cent basis. He

⁸. 13 Stat. at Large, p. 417.

⁹. 14 Stat. at Large, Ch. 169, p. 477.

proposed that the amount of exemption should be fixed at \$1,000 with an additional exemption of not to exceed \$200 for house rental.¹⁰ The attitude of Mr. Wells at this period is interesting as contrasted with his bitter attack upon the income tax of 1894.¹¹ Among the striking statistics which he submitted was the fact that the tax was paid in the year 1868 by only 250,000 persons out of the entire population of almost 40,000,000. There was a strong majority in favor of the retention of the tax in the House, while the Senate was very evenly divided. Among those who favored the tax Senator Sherman took the most prominent part. One of his arguments was that if the law was not retained there would be a deficit which would have to be met by some other form of taxation. This is the argument which has been so often used in defense of the English income tax. The Senate first agreed to strike out the income tax by a vote of 34 to 23. This vote was taken in committee of the whole; and when sitting in ordinary session the Senate, by a vote of 26 to 22, concurred in the action of the committee. A motion to reconsider was carried by a vote of 26 to 25; certain amendments were restored to the bill by a vote of 26 to 22; and a final motion to strike out the amendments was lost by a tie vote. It will thus be seen that the sentiment against the bill was very strong in the Senate. The opposition in the House also became more powerful, as is shown by the fact that an effort which was made to repeal the bill in 1871 only lacked one vote of being successful. The income tax expired by virtue of the limita-

¹⁰. Cf. Bankers' Magazine, Vol. 48, pp. 428-435.

¹¹. David A. Wells. "An Income Tax: is it desirable?" The Forum, Vol. 17, pp. 1-13. Mar. 1894. "Is the existing income tax unconstitutional?" The Forum, Vol. 18, pp. 536-542, Jan., 1895.

tion imposed by Section 6 of the act of July 14, 1870,¹² which levied a tax for the years 1870 and 1871 and no longer.¹³ It should be stated however that collections continued to be made under the law until the close of the year 1873.

The foregoing is a condensed and therefore somewhat incomplete review of the history of the legislation in reference to Federal income taxes throughout the period they were in force.¹⁴ A clearer view of what was attempted by the various laws may perhaps be obtained by taking up separately some of the more important features.

Rates. The act of August 5, 1861, which provided for a tax of 3 per cent on incomes of over \$800, may be passed over as it was superseded by the law of 1862.

By the law of July 1, 1862, the rate

on incomes above \$	600 up to \$10,000 was.....	3%
"	" " " 10,000 (less the \$600 exemption).....	5%
"	" from railroad bonds.....	3%
"	" banks, trust companies, savings institutions and insurance companies.....	3%
"	" from insurance companies (on gross receipts).....	1%
"	" " salaries of United States officials.....	3%
"	" " advertisements (in papers having more than 2,000 circulation).....	3%
"	" " securities and stocks in United States owned by citizens abroad.....	3%
"	" " interest on bonds, notes and securities of the United States.....	1½%

¹². 16 Stat. at Large, Ch. 255, p. 257, §§ 6-17.

¹³. The five per cent tax on dividends, etc., expired by limitation Aug. 1, 1870, and as the law extending the time as to the 2½% tax did not go into effect until Jan. 1, 1871, the 5% tax was not levied for 1870.

¹⁴. For an excellent and more complete review of the subject see *The Civil War Income Tax*, by Joseph A. Hill, in Vol. VIII of *Quarterly Journal of Economics*, p. 416.

An analysis of such portions of the various acts as were embodied in the subsequent law of 1894, is given in "A Treatise on the Federal Income Tax," by Foster and Abbott, 1895. See also Gould and Tucker, "The Federal Income Tax Explained," 1894.

The Joint Resolution of July 4, 1864, had the effect to raise the personal income taxes for the year 1863 fixed at 3 per cent and 5 per cent to 8 per cent and 10 per cent respectively.

The law of June 30, 1864, provided the following rates:

Over \$ 600 and not exceeding \$ 5,000.....	5 %
" 5,000 " " " 10,000.....	7½ %
" 10,000	10 %
Railroad, canal and steamboat companies, etc. (on gross receipts).....	2½ %
Express Companies (on gross receipts).....	3 %
Insurance " " " ".....	1½ %
Telegraph " " " ".....	5 %
Gross receipts of theaters, operas, circuses, etc....	2 %
Bank Deposits.....	1/24 of 1 %
Lotteries (on gross receipts).....	5 %
Advertisements	3 %
Stock dividends in banks, insurance companies...	5 %
Salaries of United States officials.....	5 %

The law of March 3, 1865, fixed the rates on personal income as follows:

Above \$ 600 and not exceeding \$5,000.....	5 %
" \$5,000	10 %

The law of March 2, 1867, fixed the tax on incomes of

Over \$1,000 at.....	5 %
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The law of July 14, 1870, levied a tax on incomes

Over \$2,000 of.....	2½ %
And on interest on corporate bonds and dividends of companies mentioned above.....	2½ %

What reckoned as income. In the act of 1862 the tax was levied upon "the annual gains, profits or income of every person residing in the United States, whether derived from any kind of property, rents, interest, dividends, salaries, or from any profession, trade, employment or vocation carried on in the United States, or elsewhere, or from any other source whatever."

The law of 1864 followed the same form; but, instead of specifying a separate rate for interest upon notes, bonds and other securities of the United States, provided that such interest should be treated as general income.

The law of 1867 added to the above definition of income:

Profits realized within the year from sales of real estate purchased within the year or within two years previous to the year for which income was [is] estimated; interest received or accrued upon old [all] notes, bonds and mortgages, or other forms of indebtedness bearing interest, whether paid or not, if good and collectable, less the interest which has become due from said person during the year; the amount of all premium on gold and coupons; the amount of sales of live stock, sugar, wool, butter, cheese, pork, beef, mutton, or other meats, hay and grain, or other vegetable or other production, being the growth or produce of the estate of such person, not including any part thereof consumed directly by the family; all other gains, profits, and income derived from any source whatever, except the rental value of any homestead used or occupied by any person or by his family in his own right, or in the right of his wife; and the share of any person of the gains and profits of all companies, whether incorporated or partnership, who would be entitled to the same, if divided, whether divided or otherwise, except the amount of income received from institutions or corporations whose officers, as required by law, withhold a percentum of the dividends made by such institutions, and pay the same to the officer authorized to receive the same; and except that portion of the salary or pay received for services in the civil, military, naval, or other service of the United States, including senators, representatives and delegates in Congress, from which the tax has been deducted.

It has seemed worth while to give this definition in full as it has been followed closely in the law of 1894, and the income tax laws of some states.

Exemptions and Deductions. As may be seen from the statement of rates the exemptions were successively \$600, \$1,000 and \$2,000. By the act of 1862 certain national, state and local taxes, as well as income, the tax upon which had been collected at the source, could be de-

deducted from total taxable income. The amendment of March 3, 1863, provided that in estimating income the amount actually paid by any person for the rent of the dwelling house or estate on which he resided could be deducted from his income. This provision was extended by the law of 1864, so that "the amount paid by any person for the rent of the homestead used or occupied by himself or his family, and the rental value of any homestead used or occupied by any person or by his family in his own right, or in the right of his wife" should not be treated as income. The object of this provision was to place owners and renters of houses on an equal footing; but the same end could have been obtained and more tax collected by following the plan usually adopted in other countries of not allowing any deduction for rent and requiring the owner of a home to account for its rental value as income. By the act of 1862, the taxes which could be deducted were limited to those paid upon sources of income; but the law of 1867 provided for a deduction of "all national, state, county and municipal taxes paid within the year."

Among other deductions allowance was made for "the losses actually sustained during the year arising from fires, shipwrecks or incurred in trade and debts ascertained to be worthless, but excluding all estimated depreciation of value." The cost of ordinary or usual repairs could be deducted, but amounts paid for new buildings or permanent improvements, or other betterments made to increase the value of property were not to be reckoned.¹⁵

¹⁵. For a more detailed account of deductions and numerous rulings thereon see Foster and Abbot, a Treatise on the Federal Income Tax, 1895.

Administration. The provisions made for administering the law seem very crude, incomplete and inadequate when compared with similar provisions in other countries; but it must be remembered that great advances have been made in the administration of income tax during the past fifty years. The administration of the Civil War Income Tax devolved upon the assessors of Internal Revenue, who were under the general supervision of the Commissioner of Internal Revenue. The time for assessment was originally fixed as the first of May and the tax became due on or before June 30; but these dates were changed by the act of 1867, to March 30 and April 30 respectively. The penalties provided for were at first an addition of 5 per cent to the amount of the tax remaining unpaid; afterwards 10 per cent; and by the law of 1867, 5 per cent, with interest at one per cent a month until the tax was paid. All persons were required to make and render a return of the amount of their income, gains and profits which was to be verified by the oath or affirmation of the party rendering it.¹⁶ In case of neglect or refusal to make such return, or in case of a fraudulent declaration, the assessor was authorized to prepare a return "according to the best information" he could obtain "by the examination of such person or his books or accounts, or any other evidence," and in such case 50 per cent was added to the tax due on the list as made out by the assessor. In all cases of false or fraudulent lists or returns however the penalty was 100 per cent. The right

¹⁶ When the tax first went into effect the Commissioner of Internal Revenue gave instructions that returns should not be made public; but, there being no law against publicity in this respect, newspaper enterprise soon led to the printing of the lists, and this practice, which was thought to be conducive to more complete returns, was kept up until forbidden by the law of 1870.

of appeal was granted from the decision of the assistant assessor to the district assessor and from the latter to the Commissioner of Internal Revenue, whose judgment in the matter was final.

Results. The numerous changes in rates and the manner in which collections for taxes levied in any one year were made in subsequent years, render it difficult to trace the exact yield of the tax for any particular year. From the standpoint of annual *collections*, however, the following statement and comparison can be made:

Year	Total Income Tax	Total Internal Revenue	Percentage of Income Tax to total Revenue
1863	\$ 2,741,858	\$ 41,003,192	6.68
1864	20,294,731	117,145,748	17.3
1865	60,979,329	211,129,529	28.3
1866	73,434,709	310,906,984	23.6
1867	66,014,429	265,920,424	24.8
1868	41,455,598	191,180,564	21.6
1869	34,791,855	160,039,344	21.7
1870	37,775,873	185,235,867	20.3
1871	19,162,650	144,011,176	13.3
1872	14,436,861	131,770,946	10.5
1873	5,062,311	114,075,486	4.4
Total	\$376,150,204	\$1,872,419,260	Average 20.0%

The following are the amounts collected in each of the states, omitting the income tax collected on salaries of United States officials and a portion of the Special Income Tax of 1864, as to the apportionment of which between the states we are not informed:¹⁷

¹⁷. Computed from table on last page of memorandum submitted April 11, 1910, by Joseph H. Choate and others to the Legislature of the State of New York in opposition to the 16th Amendment. This table does not include \$28,929,312 which, according to Dr. Hill, was collected in 1866, from the Special Income Tax of 1864, and neither of the tables entirely agrees with the statistics furnished by the Secretary of the Treasury, which are found in Vol. 26, Part III, of the Congressional Record on page 1812 (paging of daily issues)* under proceedings of Jan. 31, 1894. Secretary Carlisle gives the total amount collected from the Civil War Income Tax as \$347,220,897.86. By a table attributed to Senator Sherman found in

Alabama	\$ 982,244.62
Arizona	26,683.73
Arkansas	218,225.70
California	10,089,645.91
Colorado	370,669.33
Connecticut	9,412,456.91
Dakota	4,277.12
Delaware	1,159,877.19
District of Columbia	1,891,688.63
Florida	115,097.60
Georgia	1,735,509.47
Idaho	160,783.19
Illinois	16,117,899.54
Indiana	5,465,092.63
Iowa	2,268,722.97
Kansas	590,858.51
Kentucky	6,649,125.86
Louisiana	2,772,947.48
Maine	2,140,077.29
Maryland	9,712,633.07
Massachusetts	41,272,296.39
Michigan	4,532,645.31
Minnesota	647,965.64
Mississippi	392,682.03
Missouri	7,011,635.64
Montana	185,845.88
Nebraska	242,729.86
Nevada	693,124.45
New Hampshire	1,523,091.56
New Jersey	12,946,168.80
New Mexico	125,771.65
New York	104,330,088.10
North Carolina	357,661.75
Ohio	22,429,587.51
Oregon	782,341.66
Pennsylvania	47,463,886.81
Rhode Island	6,083,854.39
South Carolina	642,206.26
Tennessee	1,845,352.08
Texas	739,600.62
Utah	148,039.20
Vermont	1,303,035.48
Virginia	1,253,976.14
Washington	147,830.41
West Virginia	978,992.33
Wisconsin	2,877,842.99
Wyoming	11,834.63
	<hr/>
	\$332,854,604.42

Vol. 26 of the Congressional Record, Part 9, on page 7883 (daily paging), June 22, 1894, the total amount is given as \$346,967,388.12. *(There is a wide divergence between the paging of the daily issues of the Congressional Record of this period and that of the bound volumes. Our references are to the pages of the daily issues.)

Upon the basis of *sources from which the income taxes were collected* the following classification may be made:

3 %	Tax on incomes \$600 to \$10,000 (Years '63, '64 and '65)	\$ 17,814,170
5 %	Tax on incomes over \$10,000 (Years '63, '64 and '65)	16,494,961
5 %	Tax on incomes \$600 to \$5,000 (Years '65, '66, '67)	49,139,423
10 %	Tax on incomes over \$5,000 (Years '65, '66, '67) ..	60,851,011
5 %	Tax on incomes \$1,000 (Years '67 to '71)	103,787,865
2½ %	Tax on incomes \$2,000 (Years '71, '72, '73)	16,097,921
5 %	of income from property of citizens residing abroad (Years '63, '64, '65)	230,470
1½ %	income from interest on United States securities (Years '63, '64, '65)	212,413
	Bank dividends and surplus	27,854,024
	Bank profits undivided	1,279,690
	Canal Companies' dividends	1,785,812
	Insurance Companies' dividends	5,689,070
	Railroad Companies' dividends	21,416,738
	Interest on bonds	9,987,844
	Turnpike Companies' dividends	237,324
	Salaries United States officials	13,889,604
	Special Income Tax of 1864	29,381,862
Total		\$376,150,202

As to the *number of persons assessed*, the statistics are not obtainable for the first three years. The total number for the year 1866 was 460,170, which was no doubt the largest number reached in any year. Mr. Joseph A. Hill has computed the numbers for each subsequent year as approximately:

1867.....	266,135	1870.....	276,661
1868.....	254,617	1871.....	74,775
1869.....	272,843	1872.....	72,949

As the population of the United States at this period was about 40,000,000 it will be seen that the number of persons who paid income tax in 1866, was a little over one per cent of the population, while in the later years it varied from two-thirds of one per cent to less than one-fifth of one per cent.

For the year 1867 in which the statistics appear to be most complete and reliable Mr. Hill has classified the tax-payers as follows:¹⁸

Number returning incomes :

Over \$ 1,000	and not over \$ 1,400	101,219
" 1,400	" " " 2,000	68,680
" 2,000	" " " 3,000	40,899
" 3,000	" " " 11,000	46,055
" 11,000		9,282

Another classification made on the basis of amount of tax paid by each individual in 1868 is as follows :

Number who paid tax of \$ 20	100,558
" " " " " 20 to \$ 50	55,949
" " " " " 50 " 100	38,957
" " " " " 100 " 200	51,188
" " " " " over 200	7,965

It has been estimated upon the basis of these figures that only twenty-four thousandths of one per cent of the population in that year paid taxes on incomes of more than \$4,000. It also appears that the amount collected in that year from income taxes was only nineteen one-hundredths of one per cent of the total assessed valuation.¹⁹

Considered *geographically* and adopting the old method of grouping the States, it appears that

the Middle States	paid 53.4% of the tax.
the New England States	" 18.4% " " "
the Western States	" 19.2% " " "
the Southern States	" 5.6% " " "
the Pacific States	" 3.4% " " "

Total 100%

It is obvious that these proportions would be greatly changed under present conditions. The small amount

¹⁸. The Civil War Income Tax by Joseph A. Hill. Quarterly Journal of Economics, Vol. VIII. No. 4. July 1894.

¹⁹. Estimate of the probable or possible revenue under the proposed income tax (of 1894) by Worthington C. Ford, Chief of the Bureau of Statistics of the Treasury Department, dated April 3, 1894. Senate Miscellaneous Documents, Vol. 5, No. 232.

contributed by the Southern states is of course attributable to the fact that the taxes could not be collected during the war, and for some years afterwards conditions were very unfavorable to income taxation. That these conditions have now changed is evidenced by the census report of 1904, which shows that the Southern States have about one-eighth the wealth of the country.

It is evident from the above figures that the administration of the tax was very ineffective and it seems probable that not more than one-tenth of the actual taxable income of the country was reached. As was said by Senator Morrill, on the floor of Congress, the income tax was after all but little more than the amount which each individual chose to pay on his own estimate of his income. It is probable that many conscientious and patriotic recipients of small incomes made honest returns; but it is certain that many persons enjoying very large incomes found methods and excuses for evading the tax. It is unfortunate that the first experience of our Federal government with an income tax was surrounded by conditions which render it unsafe to make any of the deductions ordinarily to be drawn from a fiscal experiment of that character.

B. THE FEDERAL INCOME TAX OF 1894.

The second attempt on the part of the Federal government to levy a general income tax was rendered nugatory by decisions of the Supreme Court of the United States holding the law to be unconstitutional. These decisions were of such far-reaching importance in

their relation to Federal income taxes that a brief reference to the law and the construction placed upon it seems necessary.

The first mention of the tax is found in President Cleveland's message of December 4, 1893, in which, while referring to the tariff bill, he said, "The committee,²⁰ after full consideration and to provide against the temporary deficiency which may exist, before the business of the country adjusts itself to the new tariff schedules, have wisely embraced in their plan a few additional internal revenue taxes, including a small tax upon incomes derived from certain corporate investments."

It would seem that the President was mistaken, as the tariff bill, which the committee reported December 19, 1893, did not contain any reference to income taxes, and Senator Hill afterwards asserted that no agreement had been reached at that time by the committee in reference to income tax. It would also seem that the President had in mind a special tax upon corporations.

On the 24th of January, 1894, Mr. McMillin of Tennessee introduced a bill (H. R. 5442), "to impose a tax on corporate and individual incomes, to increase the tax on distilled spirits and for other purposes." The bill followed very closely the provisions of the Civil War income tax laws and Mr. McMillin stated in reference to the exemption of interest paid to depositors in savings banks, "We have followed, so far as we consistently could, that line of policy which received judicial construction under the old law." While the exemption was

²⁰. Committee of Ways and Means of the House of Representatives.

statutory and the Civil War income tax received scarcely any judicial construction, he no doubt had in mind the case of *Cary vs. St. Francisco Savings Union*, 22 Wallace 38 (1874) in which the Supreme Court held that under the act of 1864, as amended in 1866, earnings of savings banks paid out as dividends were taxable.

The bill was incorporated in the general Internal Revenue Amendment and when it came before the House for action (February 1, 1894) an effort was made by Mr. Cochran of New York to obtain unanimous consent that the vote be confined to the income tax proposition. Objection was made and the Speaker ruled that the question was not divisible. The vote on the amendment was the real test vote as to income tax and it showed, ayes 182, nays 48, not voting 122. It is interesting to note that if those who voted in favor of the law were classified according to geographical divisions there were:

From southern	states.....	108
“ western	“	69
“ middle	“	3
“ New England	“	2

It thus appeared that all but five of the members who voted in favor of the tax came from southern or western states. The final vote upon the whole bill stood 204 yeas, 140 nays,—8 not voting.

On the second of February, 1894, the bill was transmitted to the Senate and referred to the Committee on Finance. It was reported back March 20, but the provisions relating to income tax were not reached until the 21st of June. A great number of amendments were offered and from June 21 to June 28 a large portion of the time of the Senate was occupied with arguments for and against the measure and in discussing a great num-

ber of proposed amendments. The bill was passed in the Senate July 3, 1894, by a vote of 39 to 34 and, as the Senate was disposed to insist on its amendments, it went to a Committee of Conference. At first there was much opposition to the Senate amendments, but the House finally accepted them and, August 28, 1894, the bill was reported to the House as having become a law without the President's approval. The most important amendment which the Senate had made was one which limited the operation of the law to the first day of January, 1900. In its main features the bill followed the law of 1867, and such changes as were made were not of such a character as to indicate that the subject had received very careful consideration. The new law provided for a tax of 2 per cent upon all incomes exceeding \$4,000. It is difficult to understand the theory upon which the exemption was placed so high and even the Populists, through Senator Peffer, endeavored to have the exemption lowered to \$1,000, which was the amount of the exemption in the law of 1867. In all other countries the aim has been to make the exemption equivalent to a reasonable "minimum of existence," and \$1,000, while much higher than the sums usually fixed in other countries, might possibly be considered a reasonable exemption in the United States; but, to fix the exemption at \$4,000, was to relieve the great mass of moderate incomes from taxation and concentrate the tax upon a very small number of comparatively wealthy people. The feeling of opposition which this provision of the law engendered was reflected by an article signed "Plain Speaker," published in the *North American Review*, in which the following language was used:

The well-to-do will no more be able to stay the increase than they have been to stay the imposition of the tax itself. They have all been separated from the rest of the community, the dividing line being at \$4,000. They have been constituted a class apart, especially chosen to bear the burden of taxation.

It is not in human nature for those who have nothing, to resist the temptation of increasing the tax of the well-to-do. This increase would probably be arrived at by the insertion of progressive features in the tax. You can resist Socialism and Anarchism, because these would affect the people at large, but a progressive tax on income and inheritances would fall immediately but on the few.

You can declare that it is visionary—it is very actual and real. Yet it may be made to go as far as the wildest Socialist dream. Once admitting the principle, that a small portion of the community can be penned off for taxation without the rest—a portion that must necessarily be, if not unpopular, at least the subjects of envy on the part of the many, and their sacrifice must follow.²¹

Among the many defects and incongruities in this act, the following may be mentioned :

1. The \$4,000 exemption did not apply to corporations and, therefore, the man who had \$3,000 income from corporate dividends would be taxed, while one who received the same sum from other sources would not.

2. The act applied to all personal property acquired by gift or inheritance. This was objectionable, because

- a). Successions are irregular and not periodic and are therefore not properly income.

- b). Because inheritances are otherwise taxed in many states.

- c). Because a discrimination was made against all persons receiving personal property by inheritance. The result was that a man who inherited real estate of the value of \$100,000 would be free from the income tax, while

²¹. North American Review. Vol. 160, p. 605.

the man who inherited \$100,000 of personal property would have to pay \$2,000 taxes.

3. While the act provided that "nothing herein contained shall apply to states, counties or municipalities," there was no express exemption of corporations the stock of which might be owned by a state or municipality and be used for the discharge of state or municipal functions.²²

4. The act did not exempt the salaries of the President and Federal Judges. The constitution provides that the compensation of such officers shall not be diminished during their continuance in office. There is good authority for believing that such salaries cannot be taxed without an amendment to the constitution.²³

5. Under the wording of the law farmers were not taxed upon the amount of produce retained and consumed by their families and were thus given a deduction not accorded to others.

6. Section 28 of the act refers to income or salary upon which a tax has not been paid by the employer, "where the employer is required by law to pay on the excess of over \$4,000;" but the act failed to make any provision for the payment by employers on the excess specified.

7. No provision was made for collection at the source, except in the case of salaries of Government

²². *The Collector v. Day*, 11 Wall. 113. *U. S. v. Balt. & O. R. R. Co.* 17 Wall. 322.

²³. See letter of Chief Justice Taney to Secretary of the Treasury, February 16, 1863, in *Tyler's Life of Taney*, pp. 432-435. Opinion of E. R. Hoar, Attorney-General, Oct. 23, 1869, *Opinions of Attorneys-General*, Vol. 13, p. 367.

officials and in such case, the collections would of course be for the current year, while all other persons were paying upon the income of the preceding year.

8. No distinction was made between earned and unearned incomes nor was any variation made in the exemption according to the size of families and the number of persons whom the taxpayer had to support.

In order to understand the force and effect of the decisions of the Supreme Court declaring the Income Tax Law of 1894 unconstitutional, it is necessary to review certain decisions which had been previously rendered. These decisions are:

1. Hylton vs. United States, 3 Dallas, 171 (1796).
2. Pacific Insurance Co. vs. Soule, 7 Wallace, 433 (1868).
3. Veazie Bank vs. Fenno, 8 Wallace, 533 (1889).
4. Scholey vs. Rew, 23 Wallace, 331 (1874).
5. Springer vs. United States, 102 U. S., 586 (1880).

The clauses of the constitution involved in each of these cases were the following:

“Representatives and *direct taxes* shall be apportioned among the several states which may be included within this Union *according to their respective numbers*, which shall be determined by adding to the whole number those bound to service for a term of years, and excluding Indians not taxed, three-fifths of all other persons” * * *

“No capitation or other *direct tax* shall be laid unless in *proportion to the census* hereinbefore directed to be taken.”

In the first of the above decisions it was held that a tax on carriages could not be laid by the rule of *appor-*

tionment without very great inequality and injustice and that therefore the constitution could not have intended that an apportionment should be made. The court held that the tax on carriages was an excise and therefore an indirect tax. Chancellor Kent, in speaking of this case said: "The better opinion seems to be that the direct taxes contemplated by the Constitution were only two, viz.: a capitation or poll tax and a tax on land."

The second case was one involving the validity of taxes on receipts of insurance companies from premiums. The court held unanimously that the taxes were not direct taxes and were therefore valid.

In the third decision the opinion of the Supreme Court, delivered by Chief Justice Chase, was to the effect that a tax of ten per cent upon the notes or circulation of State banks was not a direct tax which required apportionment. The Chief Justice used the following language: "It may be rightly affirmed that, in the practical construction of the Constitution by Congress, direct taxes have been limited to taxes on land and appurtenances and taxes on polls or capitation taxes."

In the fourth case it was held that the succession or inheritance taxes imposed by the Acts of June 30, 1864, and July 13, 1866, were not direct taxes and were therefore valid.

In the case of *Springer vs. United States* the question of the validity of the income tax was more directly involved and the decision was considered by many good lawyers to sustain fully the right of Congress to levy income taxes without apportionment.

Mr. Justice Swayne in delivering the opinion of the Court said:

"The central and controlling question in this case is whether the tax which was levied on the income, gains and profit of the plaintiff in error, as set forth in the record * * * is a direct tax."

In speaking of the Hylton case he said:

"It was well held that where such evils would attend the apportionment of a tax the Constitution could not have intended that an apportionment should be made. *This view applies with even greater force to the tax in question in this case.* Where the population is large and the incomes are few and small it would be intolerably oppressive."

The decision closed with the following words:

"Our conclusions are that direct taxes within the meaning of the Constitution are only capitation taxes as expressed in that instrument and taxes on real estate, and that the tax of which the plaintiff in error complains is within the category of an excise or duty."

It will be observed however that there was a latent inconsistency in this decision in so far as it asserted that a tax on land was a direct tax and an income tax was not direct. This left room for doubt as to whether a tax on income which was composed of the rents of land, would be held to be direct or indirect. This inconsistency had evidently not been overlooked, and soon after the passage of the Income Act of 1894, one Charles Pollock, a citizen of Massachusetts, brought an action against the Farmers Loan and Trust Company of New York City, averring that he was the owner and holder of ten shares of the capital stock of said company of a value exceeding \$5,000, and that he brought suit not only in his own behalf, but also as a representative of the other stockholders. He complained that the company was about to

pay a tax of 2 per centum of its net profits in excess of \$4,000, which payment would diminish the assets of the company and lessen the dividends on the shares. It was alleged that the law was unconstitutional, null and void for a variety of reasons, and among others, because the income of the Trust Company was in part from real estate and from stocks and bonds of states of the United States and counties and municipalities.²⁴

Certain other cases which involved the same questions, were argued at the same time and the briefs filed for and against the validity of the income tax were prepared by men of distinguished ability. The formidable array of counsel who opposed the tax comprised such men as William D. Guthrie, Benjamin H. Bristow, Clarence A. Seward, Joseph H. Choate and Senator Edmunds. In defense of the tax, arguments were made by the Attorney General, Richard Olney, Assistant Attorney General Whitney and James C. Carter.

Mr. Guthrie attacked the law chiefly on the ground of its discrimination and lack of uniformity. Mr. Seward argued that the income tax was a direct tax within the meaning of the constitution; while Mr. Choate attacked the law as communistic in its purposes and tendencies and insisted strenuously that the tax was a direct tax because it included income from the rental value of land. To use his own language—

²⁴. *Pollock vs. Farmers' Loan and Trust Company*, 157 U. S. 429. Rehearing 158 U. S. 601. Owing to the importance of this case the arguments were published in connection with the opinions. The report of the original trial fills 125 pages of volume 157, and that of the rehearing 115 pages of volume 158 of the Supreme Court reports. The impossibility of giving any adequate synopsis of the arguments and opinions in a brief space will be evident, and we commend the reading of this case (which can be found in almost every law library) to every person who desires to understand its full import.

I say that a tax on land yielding income by whatever name is in reality, in effect and substance, a tax upon the rental. * * * Was it intended that, although Congress could not put an unapportioned tax upon real estate, it could put an unapportioned tax upon rent of real estate and so eat all the real estate up? How can a man pay this five years' annual tax on the rent of real estate? Absolutely only out of the rental. Would any free people, if they had prohibited a land tax, submit to a tax on rentals?

He pointed out some of the incongruities in the law which have already been mentioned, complained of the lack of uniformity in its application, and called attention to the fact that the tax in so far as it applied to municipal bonds was an interference with state sovereignty.

In support of the tax it was claimed that the tax was *not* a direct tax; that the uniformity required by the constitution was simply *geographical* uniformity; that a tax on income was not a tax on land especially as much land did not produce income; that there was no impropriety in taxing state securities, but, if there were, the law would be invalid only as to them; and that the inequalities in the law were inseparable from all tax legislation. Mr. Carter, in answering the argument that the law was class legislation, met the issue squarely and used the following vigorous language:

It is said to be class legislation, and to make a distinction between the rich and the poor. It certainly does. It certainly is class legislation in that sense. That was its very object and purpose. This is a distinction which should always be looked to in the business of taxation. Unfortunately heretofore it has been observed in the wrong direction, as I have already pointed out, and the poorer class prodigiously over-burdened.

It is said also to be sectional legislation, and that too is true. It is so, not in terms, but in operation and effect; but it is so only because wealth has become sectional. If either of the two objections alluded to could be allowed to prevail,

it would be forever impossible for this country to lay any income tax whatever. Such features belong to the very nature of an income tax.

He also claimed that the constitutionality of the law had been settled by the decisions in the five cases which have been referred to above. As to the question of taxing incomes from State and municipal bonds he said:

I think the objection is untenable, first, because if the tax is a tax upon any state agency, it is a tax upon the borrowing power, and this is not necessary to municipalities, or even to States, in any such sense or degree, as it is necessary to the United States. The great exigency of war, which is the principal case calling for an exercise of the borrowing power, if not the only one in which loans are absolutely necessary, does not rest upon the States. Their existence, with all their functions can be maintained by means of revenue derived from taxation, and perhaps it would be better if no other means had ever been resorted to by them. In the next place this court has held what must undoubtedly be true, that each State has the right to tax the municipal and state bonds of every other State, and shall it be said that the United States do not have the power to tax a species of property which every other State in the Union has the power of taxing?

The decision of the majority of the Court was delivered by Chief Justice Fuller and it held among other things:

A tax on the rents or income of real estate is a direct tax within the meaning of that term as used in the constitution of the United States. A tax upon income derived from the interest on bonds issued by municipal corporations is a tax upon the power of the state and its instrumentalities to borrow money and is consequently repugnant to the constitution of the United States.

The court also held that so much of the act as provided for levying taxes on income derived from real estate or from the interest on municipal bonds was invalid.

There were three questions upon which the court was equally divided, to-wit:

1. Whether the void provision as to rents and income from real estate invalidated the whole act.

2. Whether as to the income from personal property as such, the act was unconstitutional as laying direct taxes.

3. Whether any part of the tax, if not considered as a direct tax, was invalid for want of uniformity.

An able and exhaustive dissenting opinion was filed by Justice White, which was concurred in by Justice Harlan.

The decision in the Pollock case was rendered April 8, 1895, and ten days later a petition for a rehearing was filed. The petition was granted and the questions remaining undecided were again argued with great force and ability. On May 20, the court, by a bare majority of one, held the whole income tax law unconstitutional, summing up its conclusions in the following words:

First. We adhere to the opinion already announced, that taxes on real estate being undisputably direct taxes, taxes on the rents or income of real estate are equally direct taxes.

Second. We are of opinion that taxes on personal property, or on the income of personal property, are likewise direct taxes.

Third. The tax imposed by sections twenty-seven to thirty-seven, inclusive, of the act of 1894, so far as it falls on the income of real estate and of personal property, being a direct tax within the meaning of the Constitution, and, therefore, unconstitutional and void because not apportioned according to representation, all those sections, constituting one entire scheme of taxation, are necessarily invalid.

Able and exhaustive dissenting opinions were filed by Justices Harlan, Brown, Jackson and White, and their defence of the tax was so vigorous and eloquent, that the

effect of the decision, on the whole, would seem to have been to strengthen the public sentiment in favor of an income tax.

C. INCOME TAXES IN THE SOUTHERN CONFEDERACY.

It is a fact not generally known in the North, that the Southern Confederacy levied an income tax designed to produce a large revenue; but the disordered state of the finances, unforeseen difficulties in administration and the fact that so large a proportion of business men were in military service, combined to make the tax much less productive than it would have been under normal conditions.

In August, 1861, a direct war tax of one-half of one per cent was levied upon all property, and apportioned among the states; but the serious mistake was made of leaving to the states the collection of the needed sums. Instead of levying a tax, all the states, except Texas and South Carolina, borrowed the money, issuing bonds and state treasury notes, thus following the example of the central government which practically exhausted its credit before resorting to taxation. The Confederate congress, in April, 1863, passed a general taxing act which consisted of an eight per cent tax on property; license taxes; an income tax payable in cash; and an income tax payable in kind. These taxes were to be collected for two years from 1864.

The differentiation between salaries and other income was quite extreme, as will be seen by comparing the following rates. The law provided,—

That upon salaries of all salaried persons, serving in any capacity whatever, except upon the salaries of persons serving in the military or naval service, there shall be levied and collected a tax of *one per centum* on the gross amount of

such salary when not exceeding \$1,500 and two per centum upon any excess over that amount to be levied and collected at the end of each year * * * Provided that no tax shall be imposed by virtue of this act on the salary of any person receiving a salary not exceeding \$1,000 per annum.²⁵

The rates on net income from *other sources than salaries were*:

Under \$ 500.....	exempt
Over 500 and not exceeding \$1,500.....	5%
Over 1,500 and not exceeding 3,000.....	5% on first \$1,500 and 10 per cent on all excess.
Over \$ 3,000 and not exceeding \$ 5,000	10 %
Over 5,000 and not exceeding 10,000	12½%
Over 10,000.....	15 %

It would seem from the wording of the law that the exemption of \$500 did not apply to incomes above that sum.

Stock companies and certain corporations were taxed ten per cent on their profits, and, if such profits were between ten and twenty per cent of their capital stock paid in, the rate was 12½ per cent, or, in case the profits exceeded 20 per cent the rate was as high as 16 2/3 per cent.

Farmers were required to pay one-tenth of their produce in kind. The law provided further that they should furnish the assessors a statement of the number of hogs slaughtered and "deliver an equivalent for one-tenth of the same in cured bacon at the rate of 60 pounds of bacon to the one hundred weight of pork."²⁶ This provision was subsequently modified so as to give an exemption of 250 pounds of pork. These taxes in kind, which were expected to procure large quantities of corn, hay, fodder and other supplies needed by the army, were

²⁵. Statutes at Large of the Confederate States of America, First Congress, 3rd Session, Ch. 38, p. 120, Section 7.

²⁶. Statutes at Large of the Confederate States of America, 4th Session, Ch. 66.

very unpopular, especially in North Carolina, where numerous public meetings were held to protest against the discrimination which took from the farmer so large a portion of his substance, while permitting others to pay their taxes in depreciated currency.

The report of the Commissioner of Taxes made in November, 1863, advocated a tax of 25 per cent on persons having large incomes so as to "make it more profitable to invest their money in Confederate securities than to employ it in speculation or business."²⁷

Another objection to the income tax in general arose from the fact that the permanent Constitution of the Confederate States contained a clause similar to that in the United States Constitution, providing that direct taxes should be apportioned among the states according to population, and it was claimed that the income tax was unconstitutional, because not thus apportioned. President Davis recognized this difficulty in his message, in December, 1863; but argued that the law could have no application until a census had been taken, and he did not recommend the taking of such a census until the war should be ended.²⁸

²⁷. "If necessary, a tax of twenty-five per cent should be laid on incomes over \$5,000, and fifty per cent on all over \$10,000, and fifty per cent on the profits of all joint stock companies and corporations, over and above a dividend of twenty-five per cent paid to their stockholders. This may be considered extravagant, and capitalists may think it oppressive, but it is neither. Every man should be satisfied with a support for himself and family, and all he makes above that should be divided with his country. No man should desire to amass a fortune, or to increase his fortune, if he already has one, from the hard necessities of a bleeding country. While three-fourths, perhaps, of the men of the Confederacy, have dedicated their lives or fortunes, and in many instances, both, to their country's cause, the remaining fraction have no moral right to amass fortunes at their expense." Confederate Archives. Documents accompanying Report of Secretary of the Treasury. Report of Thompson Allan, Com'r of Taxes, p. 2.

²⁸. J. C. Schwab. *The Confederate States of America, 1861-1865*, p. 294.

As to the amount produced by the Confederate income tax, little is known for the reason that it was blended with other taxes. The amount received from the "produce tax" up to the end of 1863, was officially valued at five million dollars (Confederate currency, equal to about \$350,000 in specie). The conditions under which the tax was levied were so abnormal and the statistics which have been preserved so incomplete, that it would be unsafe to draw any conclusions from it favorable or otherwise to an income tax.

CHAPTER XIII.

THE CORPORATION TAX LAW.

Section 38 of the Act of Congress of August 5, 1909, entitled "An Act to provide revenue, equalize duties and encourage the industries of the United States, and for other purposes," provided that certain corporations, joint stock companies and insurance companies should be "subject to pay annually *a special excise tax with respect to the carrying on or doing business* by such corporation, joint stock company or association, or insurance company, *equivalent to one per centum upon the entire net income over and above five thousand dollars* received by it from all sources during such year."

This law is unique in the annals of fiscal experiments. Other countries have taxed corporations, but no nation, so far as I can learn, has ever attempted to levy a similar tax wholly and exclusively on incorporated bodies.

The history of the law presents many peculiar features¹ and the act itself exhibits some curious anomalies.

1. "Its coming into being is one of the most remarkable of recent legislative events. It was not discussed during the campaign; it was not mentioned in President Taft's inaugural; it was not proposed in the compact and deliberate program laid down by the President in his message at the opening of the special session, nor was it brought forward as any part of the pending revenue measure by any member of Congress." *Review of Reviews*, Vol. 40, p. 136. (Aug. 1, 1910.)

For example, it might be supposed that a fiscal measure of such importance would not be adopted without a great amount of preliminary study and discussion; but, as a matter of fact, the law was passed hastily and with but little debate in the closing hours of a long and wearisome session.

It was not an independent measure, but was one of the last of the numerous amendments tacked on to the very voluminous tariff Act. It is true that Attorney General Wickersham, who is credited with having drawn the bill, is noted for his great ability and legal attainments; but it can hardly be claimed that he was an expert in matters of fiscal legislation.

Again, it might be supposed that being a revenue measure it would necessarily originate in the House of Representatives;² but, so far from that being the case, it not only did not originate in the House, but never was before the House for consideration, discussion or vote.³

It might be thought that an Act which by its title proposes to "encourage the industries of the United States" would not single out industrial corporations for special taxation. Such a method of encouragement, as Mr. Machen grimly suggested, "would be that of the French captain who hanged a number of his men from the yard-arms '*pour encourager les autres!*'"⁴

2. "All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills." Constitution of the United States, Section 7, Article I.

3. It should be stated, however, that a draft of the bill was handed to Representative Longworth by the President, some months previous to its passage, for submission to the Ways and Means Committee of the House, but no action was taken upon it by the Committee. See speech of Hon. Nicholas Longworth at Chicago.

4. Machen. A Treatise on the Federal Corporation Tax Law of 1909, p. 5.

It might be supposed that a tax, the amount of which is determinable wholly by reference to net income would be recognized as at least a partial income tax. But it is precisely the friends of the law who are most strenuous in claiming that it is *not* an income tax, and we are met by a bewildering diversity of opinion as to whether it is a tax, or an excise, or an "excise tax" and as to whether it is levied on property, franchises, privileges, business or income.

In order to understand the genesis of the corporation tax law it is necessary to go back to the proposed "war tax" of 1898. This was a bill to tax the franchises of corporations on the basis of their gross earnings, or receipts and, like other Federal income tax laws, it emanated from the Senate Finance Committee as an amendment to the revenue act. It met with much opposition and finally, in lieu of it, a law was passed which was evidently aimed at the so-called "Sugar Trust" and Standard Oil Trust."

Section 27 of this law reads as follows:

That every person, firm, corporation or company, carrying on or doing the business of refining petroleum, or refining sugar or owning or controlling any pipe line for transporting oil or other products, whose gross annual receipts exceed two hundred and fifty thousand dollars, shall be subject to pay annually, a special excise tax equivalent to one-quarter of one per centum on the gross amount of all receipts of such persons, firms, corporations, and companies in their respective business in excess of said sum of two hundred and fifty thousand dollars.

The law was assailed as unconstitutional and as in conflict with the principles enunciated in the Pollock case. The question was submitted to the Supreme Court of the United States in the case of Spreckels Sugar Refining

Company vs. McClain, 192 U. S. 397, and the tax was sustained. In its decision the Court used the following language:

The tax is defined in the Act as "a special excise tax,"⁵ and, therefore, it must be assumed, for what it is worth, that Congress had no purpose to exceed its powers under the Constitution,⁶ but only to exercise the authority granted to it of laying and collecting excises. [The Court then cited and commented upon Pacific Insurance Company vs. Soule, 7 Wallace, 433, and other cases.] In view of these and other decided cases, we cannot hold that the tax imposed on the plaintiff expressly with reference to "its carrying on or doing the business of * * * refining sugar," and which was to be measured by its gross annual receipts in excess of a named sum, is other than is described in the Act of Congress, a special excise tax, and not a direct one to be apportioned among the States according to their respective numbers. This conclusion is inevitable from the judgments in prior cases, in which the court has dealt with the distinction, often very difficult to be expressed in words, between taxes that are direct and those which are to be regarded simply as excises.

The decision was very important, not only in that it was construed by many as indicating a retreat from the ground taken by the Court in the Pollock case, but also as seeming to point out a method by which the alleged constitutional restrictions on direct taxes could be evaded. It will be noticed that the corporation tax law of 1909, is drawn with special reference to bringing it within the protecting *aegis* of that decision.

⁵. As the whole question hinges upon whether the law authorizes a tax or excise the term "excise tax" seems incongruous.

⁶. Compare the opinion in the Pollock case, where it is said that "the name of the tax is unimportant;" that "it is the substance and not the form which controls;" and that the limitations of the Constitution cannot be "frittered away" by calling a tax indirect when it is, in fact, direct. Pollock v. Farmers' Loan and Trust Company, 157 U. S. pp. 580, 581 and 583.

The Republican National Convention, held in Chicago, June 18, 1908, made no mention of the income tax in its platform; but the Democratic Convention at Denver in July, 1908, adopted the following "plank:"

We favor an income tax as part of our revenue system and we urge the submission of a constitutional amendment specifically authorizing Congress to levy and collect a tax upon individual and corporate incomes to the end that wealth may bear its proportionate share of the burdens of the Federal Government.

The Socialist convention in May had also declared in favor of a graduated income tax. President Roosevelt had said in his message of December 4, 1906:

The graduated income tax of the proper type would be a desirable feature of federal taxation and it is to be hoped that one may be devised which the Supreme Court will declare constitutional.

In his speech of acceptance at Cincinnati, July 28, 1908, President Taft expressed the same idea as follows:

The Democratic platform demands two constitutional amendments, one providing for an income tax and the other for an election of Senators by the people. In my judgment an amendment to the Constitution for an income tax is not necessary. I believe that an income tax, when the protective system of customs shall not furnish income enough for governmental needs, can and should be devised which, under the decisions of the Supreme Court will conform to the Constitution.

In his inaugural address however President Taft made the following recommendation:

Should it be impossible to do so [secure sufficient revenue] from import duties, new kinds of taxation must be adopted and, among these, I recommend a graduated inheritance tax as correct in principle and as certain and easy of collection.

It was in accordance with this recommendation that the Ways and Means Committee reported an inheritance

tax law as part of the Payne Tariff Bill, and this was subsequently passed by the House and sent to the Senate for concurrence.

On June 16, 1909, President Taft transmitted a special message to Congress, from which the following is an extract:⁷

I recommended a graduated inheritance tax as correct in principle and as certain and easy of collection. The House of Representatives has adopted the suggestion and has provided in the bill it passed for the collection of such a tax. In the Senate the action of its finance committee and the course of the debate indicate that it may not agree to this provision and it is now proposed to make up the deficit by the imposition of a general income tax in form and substance of almost exactly the same character as that which, in the case of *Pollock vs. the Farmers Loan and Trust Company* (157 U. S. 429), was held by the Supreme Court to be a direct tax and therefore not within the power of the general Government to impose unless apportioned among the States according to their population.

The decision in the *Pollock* case left power in the National Government to levy an excise tax which accomplishes the same purpose, as a corporation income tax, but is free from certain objections urged to the proposed income tax measure. I, therefore, recommend an amendment to the tariff bill imposing upon all corporations and joint stock companies for profit, except National banks (otherwise taxed) savings banks and building and loan associations, an excise tax measured by two per cent. on the net income of such corporations. This is an excise tax upon the privilege of doing business as an artificial entity and of freedom from a general partnership liability enjoyed by those who own the stock.

The message also cites the *Spreckles* case as justifying the imposition of such an "excise tax."

At the request of the President, Attorney General Wickersham prepared a bill and, in accordance with the

⁷. Congressional Record, Vol. 44, Pt. III, p. 3344.

suggestion contained in the message, the Senate substituted the law thus prepared, for the inheritance tax. The bill was sent into conference, and was eventually passed by the Senate August 5, 1909, as a part of the general tariff act. There were no important amendments except that the rate was reduced to one per cent.

Early in the history of the Payne Tariff Bill,⁸ Senator Bailey of Texas, introduced an amendment which provided for a general income tax. This amendment followed very closely the Income Tax Law of 1894, except that it provided for a fixed rate of 3 per cent on all incomes in excess of \$5,000, and contained special provisions for a corporation tax, an inheritance tax and a tax on gifts, devises, and bequests.

At the same time Senator Cummins of Iowa, presented an amendment proposing a graduated tax upon all incomes over \$5,000 a year. The scale of rates proposed by him was as follows:

On incomes not exceeding \$	10,000.....	2 %
" " " "	20,000.....	2½ %
" " " "	40,000.....	3 %
" " " "	60,000.....	3½ %
" " " "	80,000.....	4 %
" " " "	100,000.....	5 %
" " of more than	100,000.....	6 %

These two amendments were eventually consolidated,⁹ mainly in the form of the Bailey bill, and strenuous efforts were made to secure the adoption of the "Bailey-Cummins amendment," before proceeding to revise the tariff. It was argued that, if there was a prospect of raising \$150,000,000 or \$200,000,000 by a tax on in-

⁸. April 21, 1909.

⁹. See Amendment to H. R. 1438 proposed by Senator Bailey June 11, 1909.

come, much larger reductions could be made in the tariff schedules. The Republican leaders however took alarm at this plan as involving a menace to the whole protective system, and succeeded in postponing action on the income tax amendments until the revision of the tariff should be completed and the amount of the resulting deficit definitely known.

The position taken by the administration forces of the Senate is shown by the following colloquy, which occurred June 29, 1909, between Senator Clay of Georgia and Senator Aldrich of Rhode Island.

Mr. Clay: I want to ask the Senator a question. If we are to raise \$50,000,000 per year by a tax on corporation dividends does the Senator think that such a tax is a vicious assault upon the protective system; and, second, if this bill as it stands will produce enough revenue to support the government and we adopt the corporation tax raising \$50,000,000, does not the Senator think we ought to take up some of the other schedules and reduce the duty in proportion to the amount that we raise by the corporation tax?

Mr. Aldrich: Does the Senator from Georgia want an answer?

Mr. Clay: I would not have asked the question if I did not.

Mr. Aldrich: I shall vote for the corporation tax *as a means to defeat the income tax.*

Mr. Clay: I think that is an honest statement.

Mr. Aldrich: I will be perfectly frank with the Senate in that respect. I shall vote for it for another reason. The statement which I made shows a deficit for this year and for next year. This year I estimated \$69,000,000. It will be \$60,000,000. And next year I estimate a deficit of \$45,000,000. I am willing that that deficit shall be taken care of by a corporation tax. That corporation tax, however, at the end of two years, if my estimate should be correct, should be reduced to a nominal amount or repealed. It can be reduced to a nominal amount and the feature of the corporation tax that commends it to many Senators and

a great many other people is that the corporation tax, if it is adopted, will certainly be very largely reduced, if not repealed at the end of two years.

So I am willing to accept a proposition of this kind for the purpose of avoiding what to my mind is a great evil and the imposition of a tax in time of peace when there is no emergency *a tax which is sure in the end to destroy the protective system.*¹⁰

A different view as to the probable permanency of the law was entertained by Senator Flint of California, who said:

If the amendment is adopted by Congress it will remain permanently on the statute books until such time as the people of this country, through their legislatures, shall ratify the constitutional amendment and then there will be added to it an income tax.

Senator Root of New York, in his speech advocating the passage of the corporation tax amendment, expressed himself as follows:

Gentlemen may say I am for the corporation tax to beat the income tax. I care not. I am for the corporation tax because I think it is better policy, better patriotism, higher wisdom than the general income tax at this time and under these circumstances. I wish to beat the income tax provision, because I think it is unwise and I wish to pass the corporation tax provision because I think it is wise.

These extracts will perhaps suffice to show that the corporation tax was not proposed and passed as an important and desirable addition to our fiscal system; nor was any attempt made to justify it from an economic or scientific standpoint. The avowed purpose of its advocates was to defeat the general income tax and incidentally to raise money to meet a temporary deficiency. This was fully understood by the Democrats, but they were in a position where they could not oppose the bill without

¹⁰. Congressional Record, Vol. 44, Part III (June 29, 1909), p. 3929.

seeming to favor the corporations and to be acting in opposition to an income tax law. When the vote was taken on Senator Bailey's motion to substitute the income tax amendment for the Corporation Tax Law there were 28 yeas and 47 nays—17 not voting. There were only five Republicans, namely, Senators Borah, Bristow, Clapp, Cummins and La Follette who voted for the income tax and no Democrats who voted against it.¹¹

As was to be expected, the question of the constitutionality of the law was soon brought before the courts. The first of fifteen cases which reached the Supreme Court of the United States was that of *Stella P. Flint, as General Guardian, etc., vs. Stone Tracy Company, et al.* It arose in Windsor, Vermont, and was well calculated to bring out clearly the unequal operation of the law.

A firm known as Tuxbury and Stone, after having carried on a prosperous mercantile business for twenty-nine years, dissolved and two new firms were formed. One of these firms was Stone, Tracy & Company, which carried on the old business, and which was formed into a corporation in 1900. The other firm was Tuxbury & Sons, who constructed a building and established a business adjoining the original store, but did not incorporate. As the two firms carried the same lines of goods, had about equal capital and were side by side, the competition was very keen. It was claimed that the firm which had incorporated was placed at a great disadvantage as compared with its rival, not only in being compelled to pay

¹¹. Congressional Record, Vol. 44, Part III (July 7, 1909), p. 4348.

a tax from which the other was exempt, but also in being compelled to make disclosure of its indebtedness and general financial condition.

The other cases which were brought to test the law may be divided into four groups: Insurance companies; public service corporations; real estate companies and miscellaneous companies, such as The Northern Trust Company (Chicago), The Corn Exchange National Bank, The American Multigraph Company, The Baltic Mining Company and The Motor Taximeter Cab Company.

All of the above mentioned companies were corporations "organized for profit," and the fifteen cases were argued together on March 2, 1910. The companies were represented by able counsel and the various points which were raised in their briefs are perhaps sufficiently indicated by the following summary of the contentions in the *reply* brief of Attorney General Wickersham and Solicitor General Bowers:

First. The tax is not a direct tax upon the property, real or personal, of the corporations, joint stock companies or associations, or insurance companies which are required to pay the tax. On the contrary, the tax is an excise, as the statute expressly declares, upon "the carrying on or doing business" by such companies; and it therefore needs no apportionment among the states according to population under Section 2 of Article I or clause 4 of Section 9 of Article I of the Constitution of the United States.

Second. The tax is not a direct tax upon shares of the stockholders in the companies to the business of which the tax attaches, or upon the income of such stockholders from their shares.

Third. The tax does not become direct in the special case of a company engaged mainly, or even solely, in the business of handling or dealing in real estate.

Fourth. The tax is not an infraction of the general power of the states to authorize the formation of corporations and joint stock companies.

Fifth. The business of public service companies is not intrinsically an operation of the state which created the company. Further, the United States may tax even a business conducted for or by a state itself.

Sixth. The tax is not imposed upon state or municipal bonds, or upon the income of such bonds, forming part of the business assets of the company whose business is taxed; and the company's income from such bonds is to be included in the computation of its net income.

Seventh. As an excise, the tax is uniform, though it is laid upon other kinds of business than insurance only when the business is conducted by a corporation or joint stock company having shares of stock; and the imposition of the tax upon the business of such corporations and joint stock companies, while the kindred business of individuals and partnerships is not taxed, does not take property without due process of law in violation of the Fifth Amendment to the Constitution.

Eighth. None of the special rules prescribed by the taxing statute produces any lack of necessary uniformity.

Ninth. The company required to pay the tax is not subjected to any unreasonable search or seizure, or improperly required to incriminate itself, by any of the administrative provisions of the statute.

Tenth. The tax may properly be collected in 1910, though it is measured by the net income of the tax-paying company during the calendar year 1909, of which seven months had already passed when, on August 5, 1909, the taxing statute was enacted.

Eleventh. If in any part or application this taxing statute is unconstitutional, it should be sustained nevertheless in all its other parts and applications.

The most important point is, of course, the first. If the tax is levied on property it is direct and therefore prohibited unless apportioned according to population. It was contended by the appellants that the tax was prac-

tically levied on the franchise. It is elementary that franchises are property¹² and Justice Field had defined "corporate franchise or business" as "the right or *privilege* given by the State to two or more persons of being a corporation, that is, of *doing business* in a corporate capacity."¹³ President Taft had described the tax in his message as "an excise tax upon the privilege of doing business as an artificial entity" and Senator Root had admitted that the words of the law, "a special excise tax with respect to the carrying on or doing business" were equivalent to a tax on the right or privilege to transact business.¹⁴ It will be seen that these were rather dangerous admissions and the Attorney General, in his brief, avoids the word "privilege" and claims that the tax is levied on "the transaction or conduct of business." He draws a rather fine distinction between franchises as *privileges* and franchises as *property* and argues that it is only the transacting of business or, at most the right of transacting business, which is taxed. In other words he claimed that the right to *do* and not the right to *be* was taxed although of course the right to *be* without the right to *do* would be of little value.

As the corporation taxes or, as they are called in the Act, "Assessments," were payable on or before the thirtieth day of June, it was expected that an early decision of the fifteen cases would be reached; but, on the last day of the term, May 31, 1910, Chief Justice Fuller made the announcement that the cases would be restored to the docket "for argument before a full bench." It was thought by many that this action indicated a three to four division among the judges upon the question of the validity of the law. The re-argument will probably take

¹². Cooley on Taxation, 3d Ed. p. 686.

¹³. Home Insurance Company v. New York, 134 U. S. 594.

¹⁴. Congressional Record, Vol. 44, p. 4088.

place in November or December, 1910, and it is of course impossible to predict the result. Only two of the judges who participated in the decision of the Pollock case—Judges Harlan and White—remain, and the new judges may look at the question involved from quite a different standpoint.

In the meantime no effort has been made to enforce the "publicity clause," which was considered a very important feature of the bill at the time it was passed. There is probably a strong feeling in administration circles that it would be injudicious to carry out the provisions of the law literally in this respect until the Supreme Court has passed upon the constitutionality of the measure.

The exact amount raised by the corporation tax has not been made public. From a statement of the Treasury Department, May 10, 1910, it appears that the sum of \$25,962,462.28 was levied and assessed in 37 states and Hawaii in the months of January, February and March. The eleven states which had not reported were Delaware, Idaho, Maine, Mississippi, Nevada, Rhode Island, Utah, Vermont, Wyoming, Arizona and Oklahoma. It seems probable that the receipts from these states will bring the total yield of the tax up to twenty-seven millions. The number of returns was 231,243 and the amount collected for penalties about \$100,000. New York contributed about one-fifth of the whole amount and more than double the amount paid by all the southern states. Pennsylvania was second and the four states of New York, Pennsylvania, Illinois and Ohio paid about one-half of the tax.¹⁵ The yield of the tax has corresponded very closely to the estimates which were made before it went into operation.

¹⁵. In Appendix F will be found a statement of the assessments for the corporation tax for three months. This statement is condensed from a tabulation by districts furnished the writer by the Treasury Department.

CHAPTER XIV.

THE PROPOSED SIXTEENTH AMENDMENT TO THE CONSTITUTION.

Every amendment to the Constitution of the United States marks an important step in the political history of the Republic, and the proposed Sixteenth Amendment which is designed to enlarge, or at least define, the power of the Federal Government to tax incomes, is no exception.

The adoption of this amendment will not only operate to strengthen the central Government in time of war or other emergencies, but it may also mark the beginning of a new fiscal policy—a policy of gradual reduction of tariff made possible by resorting to income taxation. The amendment was proposed with but little debate or public discussion, and it is safe to say that many people did not understand its full significance. Under these circumstances it has seemed proper to give a brief review of the events which led to its proposal. Article V of the Constitution of the United States provides that

The Congress, whenever two-thirds of both Houses shall deem it necessary, shall propose amendments to this Constitution, or, on the application of the legislatures of two-thirds of the several States shall call a convention for proposing amendments which in either case shall be valid to all intents and purposes as part of this Constitution when ratified by the legislatures of three-fourths of the several

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States, or by conventions in three-fourths thereof, as the one or the other mode of ratification may be proposed by the Congress.

When it became apparent, by the decision of the Supreme Court in the Pollock case, that a Federal income tax could not be constitutionally levied except upon the basis of apportionment according to population, and that the powers of the National Government in respect to income tax had become involved in so much doubt and uncertainty that the ablest lawyers and judges were unable to agree regarding them, there was a general feeling that the situation was intolerable and could only be relieved by a clear and authoritative definition of the powers of the Federal Government in regard to direct taxation.

As has been shown in the previous chapter, the Democratic platform of 1908, urged the submission of a constitutional amendment "specifically authorizing Congress to levy and collect taxes upon individual and corporate incomes."

President Taft, in his speech of acceptance of July 28, 1908, called attention to this plank of the Democratic platform and said: "In my judgment an amendment to the Constitution for an income tax is not necessary." But after his inauguration his views upon this point underwent some change, as is shown by the following extracts from his special message of June 16, 1909:

Although I have not considered a constitutional amendment as necessary to the exercise of certain phases of this power [to tax incomes] a mature consideration has satisfied me that an amendment is the only proper course for its establishment to its full extent. I therefore recommend that both Houses, by a two-thirds vote, shall propose an amendment to the Constitution conferring the power to levy an income tax, upon the National Government without an apportionment among the States in proportion to popula-

tion * * * It is said that the difficulty and delay in securing the approval of three-fourths of the States will destroy the chance of adopting the amendment. Of course, no one can speak with certainty upon this point, but I have become convinced that a great majority of the people of this country are in favor of vesting this National Government with power to levy an income tax and that they will secure the adoption of the amendment in the States if proposed to them.

Prior to this date however on April 28, 1909, Senator Norris Brown (Republican) of Nebraska, had introduced Senate Joint Resolution No. 39, which read as follows:

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled (two-thirds of both Houses concurring), that the following section be submitted to the legislatures of the several States, which, when ratified by the legislatures of three-fourths of the States, shall be valid and binding as a part of the Constitution of the United States:

The Congress shall have power to lay and collect taxes on incomes and inheritances, from whatever source derived, without apportionment among the States and without regard to any census or enumeration.

This resolution was subsequently withdrawn and re-introduced, with the proposed amendment in the following form:

The Congress shall have power to lay and collect direct taxes on incomes without apportionment among the several States according to population.

It will be noticed that the reference to inheritances, together with the clauses, "from whatever source derived" and "without regard to any census or enumeration," were stricken out and the word "direct" inserted before "taxes." In this form the resolution was read the first and second times and referred to the Senate Committee on Finance. When it emerged from this

committee and was finally concurred in by both Houses, after but little debate,¹ it had been changed to read as follows:

Article XVI. The Congress shall have power to lay and collect taxes on income, from whatever source derived, without apportionment among the several states and without regard to any census or enumeration.

It was unfortunate that the phrase "from whatever source derived" was restored, as the amendment would have been equally effective without it, and the four words in question have raised a storm of objection from those who construe them as an express permission to the Federal Government to tax state securities and as, therefore, constituting a menace to state rights. It is true that these words, or their equivalent, appeared repeatedly in each of the Civil War Income Tax Laws, the Income Tax Law of 1894, and the present Corporation Tax Law; but the sinister possibilities which were thought to lurk behind the words "from whatever source derived" were not suspected until quite recently.

In transmitting the proposed amendment to the legislature of New York, January 5, 1910, Governor Hughes sent a special message in which he said:

I am in favor of conferring upon the Federal Government the power to lay and collect an income tax without apportionment among the States according to population. I believe that this power should be held by the Federal Government so as to properly equip it with the means of

¹. Joint Resolution No. 40 proposing the Sixteenth Amendment to the Constitution was passed by the Senate July 5, 1909, by a unanimous vote of 77 yeas—15 not voting. Congressional Record, Vol. 44, Part IV, p. 4121. In the House of Representatives the Resolution was ordered to a third reading and passed July 12, 1909, by a vote of 318 yeas to 14 nays—55 not voting. Congressional Record, Vol. 44, Part IV, p. 4440.

meeting national exigencies * * * The comprehensive words, *from whatever source derived*, if taken in their natural sense, would include not only incomes from ordinary real or personal property, but also incomes derived from State and municipal securities. * * * The immunity from Federal taxation that the State and its instrumentalities now enjoy is derived not from any express provision of the Federal Constitution, but from what has been deemed to be necessary implication. Who can say that any such implication with respect to the proposed tax will survive the adoption of this explicit and comprehensive Amendment?

The message closed with a recommendation that the amendment be not ratified.

In opposition to the view taken by Governor Hughes, Mr. Edwin R. A. Seligman filed an elaborate argument in which his main contentions were:

1. That the interpretation of the legal force of the proposed amendment was incorrect.

2. That even if the legal interpretation were correct the Governor had failed to take into account certain economic facts which would prevent the consequences he feared.

3. That even if the views expressed in the message were correct and it were true that the amendment would operate to change the law in the direction indicated, there were valid reasons why the law should be so changed and the amendment prevail.

He construed the words "from whatever source derived" as equivalent to "irrespective of source," or a shorter way of saying "from all sources alike whether the source be one that previously made an apportionment necessary or not."

He made it clear that the amendment contemplated a general income tax and not a special tax, and that the effect of the tax could therefore not operate to the special disadvantage of state securities.

He also called attention to the fact that while it might well be granted that the States cannot tax the Federal securities, it by no means follows that the Federal Government ought not to have the power to tax State or local bonds.

On February 17, 1910, Senator Root wrote a letter to Senator Davenport, who championed the amendment in the New York Senate, in which he dissented from the view expressed by Governor Hughes, and urged the ratification of the amendment. He argued that the proposed amendment does not enlarge the taxing power of the National Government, but merely relieves from the rule of apportionment the power which now exists to tax incomes. In his opinion the words "from whatever source derived" were obviously intended to make the exemption from the rule of apportionment conclusive and applicable to all taxes on incomes, and he gave it as his view "that no danger to the powers or instrumentalities of the States is to be apprehended from the adoption of the amendment."

On April 11, 1910, a memorandum was submitted to the legislature in opposition to the amendment, which was signed by Joseph H. Choate, William D. Guthrie, Victor Morawetz, Austen S. Fox and John G. Milburn. There was also a separate concurring memorandum signed by Francis Lynde Stetson.

The great eminence and recognized ability of the men who signed this document no doubt impressed the legislature and contributed to the defeat of the amendment in New York. The ground taken in the memorandum was somewhat different from that occupied by Governor Hughes, as a considerable portion of the argument was

devoted to objections to a Federal income tax in general and to a graduated or progressive income tax in particular.

In the Southern states, and particularly in Virginia, the chief objection to the amendment seems to be based upon an impression that it is a grant of power to the Federal Government "and, to the extent of that grant, a diminution of the reserved rights of the States."² It might be suggested, in answer to this view, that Congress undoubtedly has the power already to tax incomes *by apportionment* according to population, and under that method the Southern states would fare worse than under the kind of income tax authorized by the amendment. The negroes would be counted in the population, but would not contribute proportionally to the tax.

The idea of amending that clause of the Constitution which refers to direct taxes is by no means a new one. As long ago as 1793 an amendment was proposed, providing that every tax should be deemed direct other than taxes on imports, excises, transfers of property and legal proceedings.³ In 1865, Representative I. C. Sloan, of Wisconsin, introduced a resolution to amend the Constitution so that direct taxes should be apportioned among the several States according to the appraised value of taxable property therein.

A similar resolution was proposed by Senator James R. Doolittle, February 6, 1866, and it reappeared six times between 1876 and 1883, being introduced each

². See letter of Richard E. Byrd, Speaker of House of Delegates (Va.), to New York Sun May 3, 1910.

³. Ames, Herman V. "The proposed Amendments to the Constitution during the first century of its history," in Annual Report of the American Historical Association, Vol. VIII, Part 2, p. 242.

time by Senator Regan of Texas. These amendments were opposed upon the ground that they would constitute a strong inducement to undervaluation and it was suggested that there would be necessity for another law requiring the States to "cheat equally."

There have been in all about twenty resolutions which proposed to amend the constitution in respect to direct taxes, but none of them has received the approval of Congress except the proposed Sixteenth Amendment.⁴

The number of state legislatures which have taken definite action upon the question of ratifying the Sixteenth Amendment up to this time (October, 1910), is thirteen. Of this number there are eight which have ratified the amendment by the requisite vote, namely: Alabama, Georgia, Illinois, Kentucky, Maryland, Mississippi, Oklahoma and South Carolina. There are four which have voted against ratification—New York, Massachusetts, Rhode Island and Virginia—while in Louisiana the Senate and the House were unable to agree and it was decided to submit the question to the voters at the next primary election. It thus appears that there are still thirty-six states in which the question is likely to arise at their next legislative sessions.

As the whole number of states is now forty-eight, and eight states have voted in favor of ratification, it will be necessary to secure favorable action on the part of the legislatures in twenty-four additional states in order to

4. There have been, since the beginning of the Government, some 1,500 resolutions, containing over 2,000 proposed constitutional amendments, which have been submitted in one or both branches of Congress. Of this large number only 19 amendments have succeeded in securing the requisite two-thirds vote and have been submitted to the States for ratification. Congressional Record, Vol. 44, July 5, 1909, p. 4109.

make the amendment effective. A vote against ratification does not preclude a ratification at a later date,⁵ but a vote in favor of ratification is final and cannot be recalled or rescinded.⁶ There is no limitation upon the period within which an amendment to the constitution may be ratified,⁷ and it is beyond the power of Congress to recall an amendment which has once been submitted to the states.

Of the thirty-six states which have not yet acted upon the amendment all but two will have sessions of their legislatures in the early part of January, 1911. The next session of the Vermont legislature, after the October session in 1910, occurs October 5, 1912, and the Louisiana legislature does not meet again until May in the same year. As to the states which have voted against ratification, but may possibly change their votes, New York and Rhode Island have legislative sessions in January, 1911, while in Massachusetts and Virginia the legislatures do not convene again until January, 1912.

The following facts regarding the thirteen states which have acted upon the amendment may be of interest in the remaining states where the legislatures still have the question before them.

⁵. Thus Georgia rejected the Fourteenth Amendment November 13, 1866, but ratified it December 21, 1868; North Carolina rejected it December 4, 1866, but ratified it July 4, 1868.

⁶. The States of Ohio and New Jersey ratified the Fourteenth Amendment, but subsequent legislatures in those states sought to rescind that action. Congress, however, included Ohio and New Jersey among the Commonwealths which it declared by joint resolution to have ratified the Fourteenth Amendment.

⁷. In 1873 the Ohio Senate, acting upon the theory that, once proposed, an amendment to the Constitution is always open to ratification, and wishing to express its emphatic disapproval of the so-called "salary grab," by which salaries of members of Congress were increased, passed a resolution ratifying an amendment relating to Congressional salaries, which had been submitted to the States by the first Congress in 1789! See Jameson, J. A., *A Treatise on Constitutional Conventions*, 4th Ed., Chicago, 1887.

Alabama was the first of the states to ratify the amendment. The manner in which the ratification was made is of interest as the form of the resolution adopted has been followed in some other states:

House Joint Resolution No. 7, which was approved by the Governor August 17, 1909, recites in the preamble that—

Whereas the Congress of the United States on July —, 1909, adopted a joint resolution proposing an amendment to the Constitution of the United States as follows: [here follow resolution and proposed amendment.]

Now, therefore, be it resolved by the legislature of the State of Alabama, that the foregoing amendment to the Constitution of the United States be and the same is hereby ratified to all intents and purposes as a part of the Constitution of the United States.

2. That the Governor of this State is hereby requested to forward to the President of the United States an authentic copy of the foregoing joint resolution.

The Governor approved the House Joint Resolution; but the better opinion seems to be that such approval is not necessary, and that it is not within the province of the Governor to act upon a resolution. The Constitution requires simply that the amendment shall be ratified by the legislatures of three-fourths of the states and it has been argued that under such circumstances the legislature acts in the capacity of a convention and not as it would in the performance of ordinary legislative functions.

In *Georgia* the amendment was ratified in the state Senate by a vote of 23 to 18, July 10, 1910. In the House the vote stood 129 for, and 32 against ratification.

In *Illinois* the resolution was in the following form:

Whereas the Congress of the United States has proposed to the several States the following amendment to the Federal Constitution.

[Here follow resolution and proposed amendment.]

Further be it resolved by the Senate and House of Representatives concurring therein that the State of Illinois by its legislature ratifies and assents to said amendment.

The ratification by the Senate took place February 9, 1910, and the House concurred in the Senate action March 1, following.

Kentucky. While this state is usually reckoned among those which have ratified the amendment, there is some question as to the regularity of the proceedings, and the ratification has not yet been certified to Congress. In answer to an inquiry Governor Wilson writes as follows:

There is a dispute as to the record and the Attorney General is investigating it. Both Houses originally ratified the amendment, practically unanimously, but in such haste (after a caucus resolution of the Democrats) that they omitted the words "on incomes" in the engrossed copy which reached me. I called their attention to the omission and thereupon the papers reported that the resolution had been again adopted by both Houses in the correct form. But the record brought to me shows that they attempted to correct the engrossment of a bill which had been completely engrossed, signed by the presiding officers, transmitted to the Governor and was in his hands. This bill was afterwards vetoed because of the error in omitting the words "on incomes" and I then sent to both Houses the official communication of the Secretary of State together with an official copy of the joint resolution for their action. It (the resolution) passed the House, and the Senate voted down a motion to call it from the orders of the day and it did not pass the Senate in that shape. I cannot advise you as to whether it is adopted or not nor as to the date.

The complications which have arisen in this instance may become quite important if the vote of Kentucky should become necessary to make up the total of thirty-six states favoring the amendment. The Joint Resolution ratifying the amendment (H. R. No. 4) is printed in the Acts of 1910 and is as follows:

Resolution ratifying the 16th Amendment to the Constitution of the United States.

1. Whereas, the Congress of the United States on July —, 1909, adopted a Joint Resolution proposing an amendment to the Constitution of the United States, as follows:

[Here follow correct copies of the Resolution and proposed amendment.]

And the foregoing proposed amendment having been laid before the Legislature of the State of Kentucky, for consideration and action:

Now, Therefore, Be It Resolved, by the General Assembly of the Commonwealth of Kentucky that the foregoing amendment to the Constitution of the United States, be and the same is hereby ratified to all intents and purposes, as a part of the Constitution of the United States.

2. That the Governor of this State is hereby requested to forward to the President of the United States an authentic copy of the foregoing joint resolution.

The resolution appears to be in due form although the request to the Governor might properly have specified that certified copies should be forwarded, not only to the President, but also to the Vice-President and the Speaker of the House of Representatives. The words "on incomes" do not occur in the above resolution but only in the copy of the amendment.

Upon the question of whether or not the ratification was effective we venture the following suggestions:

1. As to the clerical error in copying the amendment proposed by Congress, the general rule is that "legislative enactments are not any more than any other writings to be defeated on account of mistakes, errors or omissions, provided the intention of the legislature can be collected from the whole statute; and the title and preamble may be referred for this purpose."⁸ In this in-

⁸. Sutherland on Statutes and Statutory Construction, Section 260. See, also, Division of Howard County, 15 Kansas, 194.

stance the law is complete as published and the error is latent. Justice David J. Brewer, while Associate Justice of the Supreme Court of Kansas, gave his views of a somewhat similar case as follows:

Is a proposition to amend the Constitution in the nature of a criminal proceeding, in which the opponents of change stand as defendants in a criminal action, entitled to avail themselves of any technical error, or mere verbal mistake; or is it rather a civil proceeding in which those omissions and errors which work no wrong to substantial rights are to be disregarded? Unhesitatingly, we affirm the latter.⁹

2. The approval or veto of the Governor would seem to be without effect for the following reasons:

a. At the time the Constitution of the United States was adopted there was only one state in which the Governor had power to veto bills.

b. The provisions of the Constitution for ratification by *conventions* would indicate that the approval of the Governor was not contemplated.

c. It has been repeatedly held by the courts that amendments of *state* constitutions do not require the approval of the Governor to become effectual, and that the veto of an executive can only be exercised when his assent is necessary to perfect a law.¹⁰

d. While it is true that Section 88 of the Fourth Constitution of the State of Kentucky expressly provides

⁹. "Constitutional Prohibitory Amendment" case, 24 Kansas, 710.

¹⁰. Concurring opinion of McEnery in *State ex rel. Morris v. Secretary of State*, 43 Louisiana Annual Reports, 590-665, and cases cited. In re Senate File No. 31, 25 Nebraska, 864. See, also, Jamieson, J. A. A Treatise on constitutional conventions, § 556, in which it is explained that an act which is not legislative in its nature, and when perfect and operative to the full extent intended by its framers, is yet destitute of all vigor as a law, does not come within the constitutional provisions requiring approval by the Governor.

that "every order, resolution or vote, in which the concurrence of both Houses may be necessary * * * * shall be presented to the Governor, and, before it shall take effect, shall be approved by him," it is also true that similar provisions are found in the Constitution of the United States in reference to Congress and the President, and the Supreme Court of the United States has held that the approval of the President is not necessary to validate the action of Congress in reference to a constitutional amendment.¹¹

e. Kentucky is not without a precedent in this matter. In the case of the Thirteenth Amendment to the Constitution of the United States¹² the Kentucky legislature voted against ratification and the resolution was submitted to Governor Bramlette for approval or veto. The Governor adopted the view that his duties were purely ministerial in such a case and although he regretted deeply the action of the legislature, he declined to return the resolution with his dissent on the ground that the action of the legislature was absolutely complete without his approval.

In *Louisiana* the amendment was ratified in the lower House July 2, 1910, by a vote of 77 to 31. The Senate voted to submit the matter to the voters by referendum at the next primary election. The Conference Committee, which was then appointed, was unable to reach an agree-

¹¹. *Hollingsworth v. Virginia*, 3 Dallas, 378-380. See note by Justice Chase in which he says: "The negative of the President applies only to the ordinary cases of legislation: he has nothing to do with the proposition or adoption of amendments to the constitution."

¹². This was the "Emancipation Amendment," abolishing slavery. Kentucky and Delaware were the only states which voted squarely against ratification. The amendment was proclaimed as adopted December 18, 1865.

ment and, unless a special session is convened, no further action is likely to be taken until the next meeting of the Legislature in May, 1912. This result was due largely to a factional contest in the ranks of the Democratic party, Governor Sanders opposing the amendment and the Speaker, Garland Dupré, favoring it. Some of the representatives of the sugar districts also objected to a Federal income tax on the ground that it might pave the way for a reduction in the tariff on sugar.¹³

Massachusetts was the second state to reject the amendment by the votes of both houses. On the fourth of May, 1910, the House of Representatives, after two days' debate, decided against ratification by a vote of 126 to 101. Of those who favored ratification 38 were Republicans, 62 Democrats and one Socialist. Of those who opposed ratification, 124 were Republicans and 2 Democrats. There were 11 absentees of whom 7 were Republicans and 4 Democrats. In the Senate the resolution was killed by a vote of 23 to 1, May 19, 1910. The question was fully presented to the electorate before legislative action was taken. The Democratic State convention followed the example of the National convention in favoring ratification. The Republican convention, while not antagonizing the principle of income taxation, seriously questioned the advisability of enlarging the Federal power in this respect, lest it should result "in driving the states out of a field of taxation which sound economic policy might make it advisable for them to reserve for themselves."

¹³. See Vicksburg Herald, June 1, 1910.

Mississippi. The Joint Resolution ratifying the amendment is slightly different in form from that of any other state, and is as follows:¹⁴

JOINT RESOLUTION of the Legislature of the State of Mississippi ratifying and approving the proposed amendment to the Constitution of the United States relative to income tax.

WHEREAS, The Sixty-first Congress of the United States of America, at the first session begun and held in the city of Washington, on Monday the 15th day of March, 1909, proposed an amendment to the Constitution of the United States, in words and figures as follows:

Article XVI. Congress shall have power to lay and collect taxes on incomes from whatever source derived without apportionment among the several States, and without regard to any census of enumeration:

NOW, THEREFORE, *be it resolved by the Legislature of the State of Mississippi*, That the foregoing resolution, being the sixteenth amendment to the Constitution of the United States, be, and the same is hereby approved and ratified.

Adopted by the House of Representatives the 29th day of January, 1910.

H. M. STREET,

Speaker House of Representatives.

Adopted by the Senate the 7th day of March, 1910.

J. L. HEBRON,

President *pro tem.* of the Senate.

Approved by the Governor the 11th day of March, 1910.

E. F. NOEL,

Governor.

Passing by the preamble, the phraseology of which suggests the caption of a court order, it will be observed that, as in Kentucky, the amendment is not quoted cor-

¹⁴. Chapter 361, H. J. R. No. 14, Laws of Mississippi, 1910, p. 308.

rectly, "of" being substituted for "or" before the last word, so that it reads "census of enumeration, instead of "census or enumeration." Presumably this is a printer's error. There seems to have been but very little opposition to the amendment and a letter from the Governor states that the resolution was passed by an "overwhelming" vote in each House.

New York. As has been already shown in this chapter, the question of ratification was argued before the New York legislature by men of great ability. In the Assembly the friends and opponents of ratification were very evenly divided. The total membership of the Assembly is 150 and, as it was considered that a majority of all the members *elected*, and not merely a majority of the members *voting*, was necessary to effective ratification, 76 votes were needed to pass the resolution. The first vote, which was taken April 20, 1910, stood 74 to 66 in favor of ratification, 10 members being absent. The question of reconsideration came up May 3, and the vote then stood 75 to 67—there being 8 absentees. Dividing this vote according to political affiliations it appears that 64 Republicans and 3 Democrats were opposed to reconsideration, while 27 Republicans and 48 Democrats favored it.

On May 17, the New York Senate passed the Davenport resolution, ratifying the 16th Amendment, by a vote of 26 to 20. This was an apparent majority of six votes; but the full 26 votes were necessary to constitute a majority of the members elected. Politically, those voting *for* ratification comprised 13 Republicans and 13 Democrats, while the opposition consisted of 19 Republicans and one Democrat.

The question came before the Assembly for the third time May 25, upon the motion of Assemblyman Murray to suspend the rules in order to take up the Davenport resolution which had been adopted by the Senate. The motion was lost by a vote of 75 to 64, being one vote less than the number needed.

The fact that a measure which was proposed by a Republican President and passed by a Republican Congress should meet with defeat in a strongly Republican legislature, has excited some comment especially in view of the fact that a large majority of the Democratic members favored the amendment. Various explanations have been offered of which the following seems plausible:

The reason the amendment failed was because a majority of the Assemblymen were unwilling to have the great wealth of the State of New York taxed for the benefit of the South and West whose Congressmen are in the majority and whose people would bear but little of the burden.¹⁵

It is probable that a renewed effort will be made to secure a majority in favor of ratification at the next session of the legislature.

Oklahoma. House Joint Resolution No. 5, entitled "A Resolution ratifying an amendment proposed by the Sixty-first Congress of the United States of America, on the fifteenth day of March, one thousand nine hundred and nine, to the Constitution of the United States and designated as Article Sixteen" was recommended by the Governor, adopted by both Houses of the legislature and approved March 14, 1910.¹⁶

¹⁵. See authorized statement of Assemblyman Seymour Lowman in Elmira (N. Y.) Advertiser of May 7, 1910.

¹⁶. Laws of Oklahoma, 1910, p. 275.

Rhode Island. As was to be expected in a state where the protection sentiment is strong, the amendment failed of ratification April 29, 1910, a large majority favoring rejection in each House. The Governor was requested in the resolution to transmit a copy to the Secretary of State of the United States—an entirely unnecessary proceeding.

Contrary to the example of Senator Root, who loyally championed the amendment before the New York legislature, Senator Aldrich of Rhode Island did not make any effort to secure the ratification of the amendment in his own state.

South Carolina. The ratification of the sixteenth amendment is embodied in Law No. 608, which, after the usual preamble and recitals, reads as follows:

Section 1. Be it Resolved by the Senate and House of Representatives of the State of South Carolina,

That the said proposed amendment to the Constitution of the United States of America be and the same is hereby ratified by the General Assembly of the State of South Carolina.

Section 2. That certified copies of this preamble and Joint Resolution be forwarded by the Governor of this State to the President of the United States, to the presiding officer of the United States Senate and to the Speaker of the United States House of Representatives.

The Resolution was approved by the Governor February 23, 1910.

Section 2 of the Resolution is commended as being more complete and accurate in form than any of the other resolutions which have been quoted.

Virginia. In this state the Senate voted in favor of ratification, but the House of Delegates on the seventh of

March, 1910, refused, by a vote of 50 to 33, to order to engrossment the bill ratifying the amendment. The chief reason given for opposing ratification as stated by Speaker Byrd in a letter to the New York Sun, dated May 3, 1910, was that the proposed amendment "is a voluntary invitation to the Federal government to invade and occupy the innermost citadel of what remains of the reserved rights of the states."

It will be seen by the above résumé of the action thus far taken by state legislatures, that other considerations than the mere desirability of a Federal income tax have in a number of instances had controlling weight. Of the states which are still to consider the question of ratification it is expected that Connecticut, New Hampshire, New Jersey, Pennsylvania and Delaware will vote adversely to the amendment. This would increase the number of rejections to nine. Among the doubtful states are Vermont, Maine, Louisiana and Ohio; but it should be noted that the Republican State convention in Maine and the Democratic State convention in Ohio have declared in favor of ratification. It should also be remembered that the rejection of the amendment by thirteen states is not final, as subsequent legislatures, especially in states where the vote has been very close, may decide in favor of ratification.

CHAPTER XV.

SUMMARY.

The great variety of methods which have been applied in the taxation of income, is at once a tribute to the ingenuity of the human mind and an indication that this form of taxation is still in an experimental stage. As no two countries employ the same system it is evident that no plan has yet been devised possessing such superlative merits as to commend it for general adoption. On the other hand, it is probably true that nearly every country which has introduced an income tax in recent years has endeavored to profit to some extent by the experiences of other nations. But this can hardly be said of the United States. The income tax laws thus far adopted in this country would seem to have been drawn largely by men who had given the subject but little study and who had only the vaguest ideas of what had been accomplished in other lands. The crudities and imperfections which are only too apparent in these laws are due in part to the fact that political considerations have influenced those who framed them. Important fiscal measures of this character should be formulated by commissions composed of men who are reasonably free from partisan bias and whose learning and abilities render them fitted for such a task.

It is a great mistake to suppose that the intricate problem of how to tax incomes in such manner that the burden shall be equally distributed can be solved by any simple formula. Income taxation looks to the ability of the individual, and as the abilities of human beings are infinitely varied, a vast number of complex situations arise which can only be met by a law of great range and flexibility. Such a law is not likely to be devised at the first attempt. It must to a large extent be a matter of growth and development along practical lines. Such growth and development will hardly take place as the result of the efforts of any one individual and perhaps not through the united efforts of any one national government; but rather by a process of gradually sifting out that which has been proven best by the experiences of many men and many peoples. If the Federal government of the United States is to enter the field of income taxation it would do well to investigate the methods of those foreign countries which have been most successful in this field, and begin—not where they began—but where they left off, avoiding their mistakes and adopting those features of their systems which have stood the test of practical application.

It has been the aim of this book to review, in such manner as to make them readily available for reference and comparison, the practical results of income taxation in many countries. While the work has been necessarily incomplete and fragmentary, it may serve to point the way to a field of investigation which, up to this time, has been much neglected.

In taking a broad view of this subject, we note a few salient facts which it has seemed worth while to present in the form of a brief summary. It should be premised

however that comparative statistics relating to income taxation are not of the sort which can be collated with scientific precision, but are rather in the nature of mere approximations. Any attempt at generalization is met by serious difficulties arising not only from the widely dissimilar and often complicated methods in vogue, but also from the incompleteness, inaccuracy and lack of uniformity in statistical records.

Population of income-taxing countries. The countries in which incomes are taxed represent a population of 540,000,000 or more than a third of the estimated census of the globe. If the United States and France join the ranks of the income-taxing countries this number will be swelled by the addition of 120,000,000.

Recent growth of income taxation. That the income tax laws now in force are of comparatively recent origin is shown by the fact that the average of the dates when they went into effect in fifty-two foreign countries and states is found in the year 1881. If we except England, Bavaria, Saxony and four Swiss cantons where income taxes have been in force for long periods, the average date of the beginning of income taxation in the remaining forty-five states and countries would be in the year 1899. In this connection it is a noteworthy fact that no foreign country which has adopted an income tax within the past twenty-five years has seen fit to abandon it.

Federal and State taxation. There are only ten of the large countries which have what might be called *federal* income taxes—that is to say, income taxes levied by the general government for its own needs as distinguished from those levied by the minor political subdivisions. The ten larger countries alluded to are Austria, Denmark,

England, Holland, Hungary, Italy, Japan, Norway, Spain and Sweden. In Denmark, Holland and Norway there is also local taxation of income by cities and communes. Allusion is often made to the Australian, the Swiss and the German income taxes, but, as has already been pointed out, neither the Australian Commonwealth, the Swiss Confederation nor the German Empire levies any income tax.

General characteristics of systems. In the Australian States and New Zealand the methods in vogue are characterized by high exemptions, abruptly graded rates, combinations with single tax and sharp differentiation in favor of incomes from personal exertion as against incomes from property and earnings of corporations. In Japan on the other hand there is a very small exemption and a lower rate for corporations than for individuals. In England and several of her colonies, as also in Hawaii, there is a tendency to high exemptions and proportional or slightly graduated scales of rates. The principle of collection of income at the source has been developed more thoroughly in England than in any other country.

Upon the European continent, where it may fairly be said that the subject of income taxation has received the most careful study, it will be found that uniformly low exemptions, minutely graded scales of rates and elaborate systems of differentiation are the most characteristic features. In the majority of the continental states the tax upon each grade of income is not a certain percentage of the income in that grade, but a fixed amount which is practically equivalent in each grade to the amount which would result from a gradually increasing percentual rate. In a few cases, a uniform rate is provided which is rend-

ered progressive by an ingenious system of diminishing abatements in the lower part of the scale and a series of increasing additions to the higher grades. This method has been carried to greater lengths in Sweden than in any other country.

A prominent feature of the continental methods is the supplementary tax which is usually levied at a low rate on the total wealth of the taxpayer. The combination of this tax with the income tax is often described as an "income and property tax," although the expression is somewhat inaccurate and misleading.

Spain and Italy have what might be termed partial income taxes, as the profits from real estate are not treated as income, but are supposed to be reached by the general land tax.

Rates. Perhaps the most interesting basis of comparison which can be selected is the amount of rates and the degree of progression which is applied to such rates. But it is precisely at this point that the greatest difficulties are encountered owing to the widely divergent and often complicated methods employed. It seemed very desirable to obtain a sort of composite of the rates in as many countries as possible, and it was found that there were about forty systems of income taxation which would lend themselves more or less gracefully to this purpose. The countries in which these systems of income taxation are in force comprise all of the most important, except Spain. They represent a population of over 418,500,000, or 77 per cent of the whole. Ten fixed points were selected in the scale of incomes of each country and the tax computed and reduced to American currency for each point. Owing to the great diversity in the amount of exemption

and the influence of such exemption on the rate as applied to the total income, it was found necessary to take into account the effect of the exemption in every case. As a result of this rather laborious method it was ascertained that the average income tax on a total income of

\$	500	was	\$	7.70	or	1.54	per	cent
	1,000	"		19.80	"	1.98	"	"
	2,000	"		47.94	"	2.40	"	"
	5,000	"		147.87	"	2.96	"	"
	10,000	"		337.66	"	3.37	"	"
	15,000	"		509.09	"	3.39	"	"
	20,000	"		691.45	"	3.46	"	"
	25,000	"		888.45	"	3.55	"	"
	50,000	"		1,878.30	"	3.75	"	"
	100,000	"		3,791.29	"	3.79	"	"

It should be explained that the percentages given above are somewhat lower than they would be if the rates on *all* incomes had been taken into consideration. In many countries higher rates are levied upon income from capital or investments than upon income from labor; but not every country makes this distinction and it has therefore seemed best, in order to reach a common and uniform basis, to confine the calculations to the rates fixed for incomes arising from personal exertion. Had the higher rates which are levied on capital in some countries and the super-taxes and supplemental taxes been included in the computation, the average amount of tax and the percentages would have been very materially increased. A tabulation of the rates in twenty countries where a differentiation exists between earned and unearned incomes, or, in other words, between incomes from labor and incomes from capital, reveals the fact that the average proportion of the rates is as three to five, that is to say: when a certain amount of income from labor pays three dollars the same amount of income from capital

would pay five dollars. This, it will be remembered, was the exact proportion adopted in Holland by Dr. Pierson after much scientific investigation.

The forty countries which were considered in the foregoing computation may be divided into two groups as follows:

1. The "English Group" comprising England, six Australian Commonwealths, New Zealand, British Columbia, Cape of Good Hope, India, Leeward Islands (Antiqua and Dominica), Seyshelles, St. Vincent and Hawaii.

2. The "Continental Group" including Austria, Denmark, Prussia, Alsace-Lorraine, Baden, Bavaria, Brunswick, Hesse, Mecklenburg, Saxony, Wuerttemberg, Holland, Hungary, Italy, Luxemburg, Norway, Sweden and the Swiss Cantons of Appenzell A. Rh., Baselstadt, Graubunden, Solothurn, Waadt, Zurich and Zug.

By computing the average amount of tax and the percentages separately for each of these groups the following results are obtained:

Am't of Income	English Group		Continental Group	
	Tax	Percentage	Tax	Percentage
\$ 500	\$ 8.84	1.76	\$ 7.42	1.48
1,000	16.45	1.64	21.47	2.15
2,000	40.45	2.02	52.62	2.63
5,000	126.45	2.53	162.15	3.24
10,000	296.28	2.96	365.25	3.65
15,000	448.30	2.99	549.62	3.66
20,000	608.28	3.04	746.91	3.73
25,000	790.60	3.16	957.81	3.83
50,000	1,616.26	3.23	2,052.98	4.10
100,000	3,280.39	3.28	4,131.87	4.13

The lines of progression which would be produced by connecting the percentages above shown are indicated in

a diagram which will be found in Appendix C.¹ The rates in the Continental Group would be somewhat lower if Italy were omitted, as the Italian rate ranges from eight times the average of the remaining twenty-three countries, for \$500, to more than double in the higher portions of the scale.

Japan has not been included in either group as the rates are quite excessive. The amount of tax which would be levied in Japan is as follows:

Income	Tax	Income	Tax
\$ 500	\$ 17.25	\$ 15,000	\$ 2,092
1,000	39.10	20,000	2,790
2,000	92	25,000	4,590
5,000	375	50,000	10,175
10,000	1,160	100,000	20,350

Amount of income tax collected. The amount of income tax collected in the year 1908, was, in round figures, \$413,000,000. In this respect England stands at the head with \$165,000,000, Prussia was second with about \$88,000,000, Italy third with nearly \$50,000,000, Spain \$18,000,000, Japan \$13,800,000, Saxony \$12,275,000, Austria \$12,000,000 and Holland, India and Norway, each with nearly \$7,000,000. These ten countries together, raised about \$380,000,000 or about 92 per cent of the whole amount.

Proportion which income tax bears to total taxes. The amount raised by taxation of incomes is sometimes

¹. The fact that the rate for \$1,000 in the English group is less than for \$500 may require some explanation. Four Australian States which are included in that group have exemptions of £200 or \$973.30. The amount which would actually be taxed therefore would be only the difference between that sum and \$1,000. In like manner as the exemption in Hawaii is \$1,500, the amounts under that sum would not be taxed and an income of \$2,000 would be taxed on only \$500. It should be stated that the English super-tax and the German supplementary taxes are not considered in these computations.

compared with total revenue; but the results obtained have an uncertain value by reason of the fact that many countries have large gross receipts accruing from railroads and other public utilities while in others the only sources of revenue are direct and indirect taxes. It has therefore seemed that a comparison with the total amount raised by direct taxation would be of more significance. A tabulation of the statistics obtainable on this point in 37 countries discloses the fact that the income tax contributed almost exactly fifty per cent of the total amount raised by taxation. The percentages are highest in the minor German States, sometimes exceeding eighty per cent.

Exemptions. A comparison of the exemptions in various countries cannot be made with absolute accuracy owing to diversity of methods. For example, in some states the laws provide that incomes below a certain sum shall be exempt, while all above that sum shall be taxed at their full amount. In other states the exemption applies to *all* incomes regardless of their amount. In not a few cases the laws are ambiguous as to which method is intended, and it becomes necessary to ascertain how the law is applied in practice. In some countries also, as in Denmark and Norway, the amount of exemption is variable according to the number of dependents the taxpayer has to support or the amount of his income. In such cases we have taken as the amount of the exemption such sum as seemed to be a fair average.

From a tabulation of fifty-six countries which have exemptions it appears that the average amount deemed to be necessary as a minimum of existence and therefore exempt at the foot of the scale, is \$406.30. If however

these fifty-six countries are divided into two groups, the first to consist of England, fourteen of her colonies and Hawaii, and the second composed of the countries and states of continental Europe, together with Japan, it will be found that the first or what might be called the English-speaking group has an average exemption of \$1,098.50 or, in round numbers, \$1,100, while the average of the second group, comprising forty countries and political subdivisions is only \$153.13.

Proportion of income taxpayers. The proportion of income taxpayers to population is an important item, but there appear to be only twenty countries in which reliable statistics upon this point are available. Fortunately these comprise most of the larger countries as will be seen by the fact that their combined population amounts to 420,000,000. The proportion which the income taxpayers bear to total population in these countries is three and one-half per cent, but if India is omitted, as it perhaps should be owing to exceptional conditions which prevail there, the rate for the remaining nineteen countries rises to ten per cent. Among the larger states the highest proportion is found in Saxony where 26 per cent of the population pay income taxes. In Prussia the proportion of income taxpayers is 16.36 per cent. Although the population of Prussia is only about five-sixths of that of England the number of income taxpayers in the former country is five times as great as in the latter. This fact is no doubt accounted for by the difference in the exemption—England exempting nearly \$800 while the amount exempted in Prussia is only \$214. Attention has already been called to the fact that Prussia now has about the same population and about the same amount of wealth as

the United States had in the later sixties. The average number of persons who paid the Civil War income tax in the years 1867-1870 was 267,564, or about two-thirds of one per cent of the population. In Prussia the number of taxpayers in 1909 was 6,107,621 or twenty-two times as many. But an analysis of the Prussian statistics for 1909 will show that if the exemption of 900 marks, or \$214, had been raised to \$1,000, which was the amount allowed by the Civil War income tax at the period mentioned, the number of Prussian income taxpayers would have been only 324,127. Of the six million income taxpayers in Prussia nearly five and one-half million, or, to be more exact, 89.81 per cent are assessed for annual incomes of less than \$714, while only three per cent have incomes exceeding \$1,550. In Austria 85 per cent of the income taxpayers are assessed for incomes of less than \$812 and 97 per cent for incomes of less than \$2,500; but it must not be supposed that the amount of taxes paid bears any fixed relation to the number of persons assessed. As a matter of fact the three per cent of the population who have incomes over \$2,500 pay 26 per cent of the whole tax.

It will be observed that no effort has been made in the preceding pages to discuss the subject of income taxation from a theoretical or scientific standpoint. This branch of the subject has been treated with great fulness by many distinguished authors and we should despair of being able to add to the discussion anything which had

not already been better said.² Neither has it seemed advisable to attempt any lengthy discussion of the arguments which have been advanced for and against the income tax. Whether or not the taxation of incomes should become a feature of our financial system is a question upon which thoughtful men may well differ and upon which it has not seemed necessary to take sides in the preparation of this book. Whatever may be the merits of the controversy, the fact remains that nearly every civilized country has now adopted the income tax and, unless we greatly misinterpret the present trend of public sentiment, its general introduction in this country is soon to follow. In view of this contingency it may be well to allude to a few of the important questions which are likely to engage public attention.

In the first place there is the question of what is the true scope and purpose of an income tax.

The enthusiastic champions of such a tax are sometimes inclined to look upon it as a panacea for all social ills, losing sight of the fact that, like every other form of taxation, its chief function is the raising of revenue. And even in this respect it has its limitations. Whether it can ever be made to occupy anything more than a subordinate position in the field of taxation may well be doubted. In its practical application the income tax is best fitted for the modest role of a supplementary tax. To put the whole burden of taxation upon incomes would

² Professor Edwin R. A. Seligman is about to issue a book which will treat of the income tax with special reference to its theoretic and scientific basis. His acknowledged pre-eminence as a thinker and writer upon this branch of political science makes it certain that this book will constitute an important and valuable contribution to the literature of the subject.

be more unjust than to place it wholly upon property. There are features of our present system, such as the tax on intangible personalty, which have proven unsatisfactory and for which the income tax might offer an acceptable substitute. The experiences of other countries would seem to demonstrate also that a tax on incomes can be used to restore the equilibrium of a financial system where the indirect taxes bear most heavily upon the poorer classes. But it is not the proper function of an income tax to correct social inequalities nor to take money from the rich for the benefit of those less fortunate. It is primarily and preëminently a fiscal measure which finds its justification in the extent to which it will adjust itself with reasonable fairness to the abilities of those who are called upon to pay it.

In the second place, there is the great question of whether the taxation of incomes should be undertaken by the Federal Government, or by the states, or by both. The principal arguments in favor of a Federal income tax may be briefly stated as follows:

1. The general government is now compelled to rely almost wholly upon customs and excises³ for its revenues. In case of emergency some other source of income should be at hand which can be utilized without disturbing prices or seriously interfering with business. The income tax possesses these requisites.

³. The word "excises" is here used in the sense of a tax levied on certain commodities of domestic production: "Taxes on commodities are either on production within the country, or on importation into it, or on conveyance or sale within it, and are classed respectively as excises, customs or tolls or transit duties." John Stuart Mill, *Political Economy*, Vol. 5, Ch. 3, p. 562.

2. The Federal Government would have a distinct advantage in that the tax being uniform throughout the United States, there would be no escape from it by means of moving from one state to another.

3. Under a general income tax the danger of double taxation could be largely avoided. Nearly all business of importance now transcends state lines and if some or all of the states should levy income taxes, which were really effective, a large amount of double taxation would be inevitable.⁴

4. It is quite generally conceded that Federal administration of the income tax is likely to prove much more thorough and efficient than any system involving great diversity of methods and constantly subject to the caprices of local authorities.

In opposition to these considerations it is urged that a Federal income tax is an unwarranted interference with the rights of the states, and a step towards centralization in so far as it appropriates to the general government an important source of revenue to which the several commonwealths are primarily entitled.

Similar arguments, pro and con, have been advanced in respect to the corporation tax and the inheritance tax. It has been proposed as a means of reconciling these conflicting views that the Federal Government should collect such taxes, but afterward apportion the major part of the

⁴. If state taxation of incomes were general there would no doubt be the greatest variety of methods and rates and we should have a repetition on a large scale of the retaliatory legislation which is such an unfortunate feature of the taxation of insurance companies.

amount collected among the respective states.⁵ So far as income taxes are concerned it is not impossible that both jurisdictions might levy such taxes at the same time providing that the rates were sufficiently moderate; and we venture the suggestion that in case a Federal income tax is levied the states could avail themselves of the assessments made by the general government as a basis for local income taxation. It will be remembered that in Prussia *municipal* income taxes are levied upon the basis of assessments made by the Prussian Government and the assessment of the tax is thus removed from local influences. If the United States Government should levy a general proportional income tax of, say, one per cent and make the exemption very low, the amount raised would no doubt be adequate in times of peace⁶ and the state could still add one, or even two per cent without making the tax excessive.

A third question which is likely to receive much attention is that of the comparative merits of *progressive* and *proportional* taxation. Upon the one side are those

⁵. "Thus we reach the conclusion that, of the three great taxes about which the controversy has now become acute, the income tax ought to be levied by the Federal Government and its proceeds utilized not only to diminish the burden of the National indirect taxes, but more especially in order to facilitate the reform of the state general property tax; and we reach the further conclusion that the corporation tax and the inheritance tax should be levied as National taxes, by the Federal Government, but under a clear understanding with the separate states that the proceeds should be distributed in whole or in greater part to them." Seligman, *The Relations of State and Federal Finance*, North American Review, Vol. 190 (Nov., 1909), pp. 615-627.

⁶. In 1866, corporations paid more than one-eighth of the whole income tax. In 1910 a one per cent tax on corporations yielded twenty-seven million dollars. If the proportion between individual and corporate wealth were substantially the same now as then a Federal income tax of one per cent might be expected to yield \$200,000,000. See note to Appendix F.

who contend that some degree of progression is necessary—especially in a Federal tax—to offset the inequalities of indirect taxation and to bring about approximate “equality of sacrifice.”⁷ In opposition to these contentions the dangers of class legislation are pointed out, and it is argued that the great advantages arising from “collection at the source” can only be secured by a proportional tax.⁸ It has been stated that two-thirds of the English income tax is collected at the source, and thus to a very large extent the inquisitorial proceedings which tend to render income taxation unpopular, are avoided. But it is not probable that any such results could be obtained in the United States where the ramifications of business are so much more extensive and complicated.

The proper amount of *exemption* at the foot of the scale is another problem upon which there is likely to be much divergence of opinion. Some of the income taxes recently proposed have placed the exemption as high as five and even ten thousand dollars, while not a few writers and speakers have argued against the allowance of any exemption.

⁷. John Stuart Mill defines “equality of sacrifice” as such an apportionment of the expenses of government as will cause each person neither more nor less inconvenience from his share of the payment than every other person experiences from his, but he intimates that such a standard of perfection is not obtainable in practice.

⁸. It is evident that under a progressive tax the person who was required to deduct the income tax from salaries or dividends and to pay it over to the Government, could not know what rate to apply and would therefore use the highest rate. The result would be that large amounts in excess of the proper tax would be collected and a great number of reclamations would have to be made by the taxpayers.

The best authorities are in substantial agreement that the exemption should equal, but not exceed a reasonable "minimum of subsistence;" but to determine what sum would answer to that term is no easy task.

In the matter of *abatements* and *differentiations* it is evident that income taxation permits of almost infinite development, and it will be necessary to establish definite principles upon which laws for these purposes shall be based. If abatements are to be allowed in favor of those who have children or dependents to support, the question arises whether certain drawbacks such as old age, physical infirmities, etc., should not be taken into consideration. If there is differentiation in favor of earned income a similar discrimination might be made in favor of income from property already taxed, or income which is only temporary, or precarious, or non-inheritable. The field for inquiry, discussion and investigation which is thus opened up is almost limitless, but up to this time it seems to have been largely overlooked and ignored.

Lastly, there is the *administrative* problem which is perhaps after all the most difficult. The importance of this branch of the subject is evidently not appreciated in the United States and as a result many of our state income tax laws have been lamentably weak and inefficient.

It is a common remark that income tax laws are all right, but that they do not work in practice. Certainly the experiences of those states which have passed such laws are not encouraging, but is it not possible that the fault lies with the crude and imperfect administrative methods which have thus far been employed? The assessment of the annual net income of each taxpayer is a

peculiarly difficult task, because it involves the ascertainment of a sum, the amount of which is usually carefully concealed or possibly unknown even to the taxpayer himself. The argument most frequently advanced against income taxation is that it is *inquisitorial* and to a limited extent this is true. But the argument is far from conclusive. There is more of the inquisitorial feature in the administration of our tariff laws where examination of the person is often resorted to, and in the internal revenue department where every step in the manufacture of spirits and tobacco is carefully watched. The laws for the assessment of personal property, if rigidly enforced, would be quite as inquisitorial as any income tax, and many persons would rather give a statement of their annual net income than to furnish the complete exhibit of their assets and liabilities now required in many states. Moreover, if the principle of collection at source is applied to its full extent the resort to inquisitorial proceedings is largely obviated. The extent to which an income tax will be open to the objection that it is inquisitorial will also depend upon whether income is reckoned in a lump sum or divided into schedules; whether the amount of income is determined by the declaration of the taxpayer, by "exterior signs" or by official estimation; whether the income of the current year, or the preceding year, or a term of years shall form the basis of assessment; whether income tax returns shall be made public or not; and whether the assessments shall be in the hands of local, state or Federal officials.

From what has been said above it is evident that many difficult problems will have to be solved before an income tax law can be drawn which will be approximately fair

and just. The subject must be viewed from the standpoint of the political economist, the statesman, the man of affairs, the financier, the social reformer, the capitalist and the laborer. Nor will it suffice to formulate proper laws unless the general public can be educated to a due appreciation of the necessity and propriety of such laws. The people are the ultimate arbiters as to any measure which so vitally concerns their social and economic welfare and upon their collective wisdom and intelligence the future success or failure of income taxation will largely depend. ¹

REMARKS

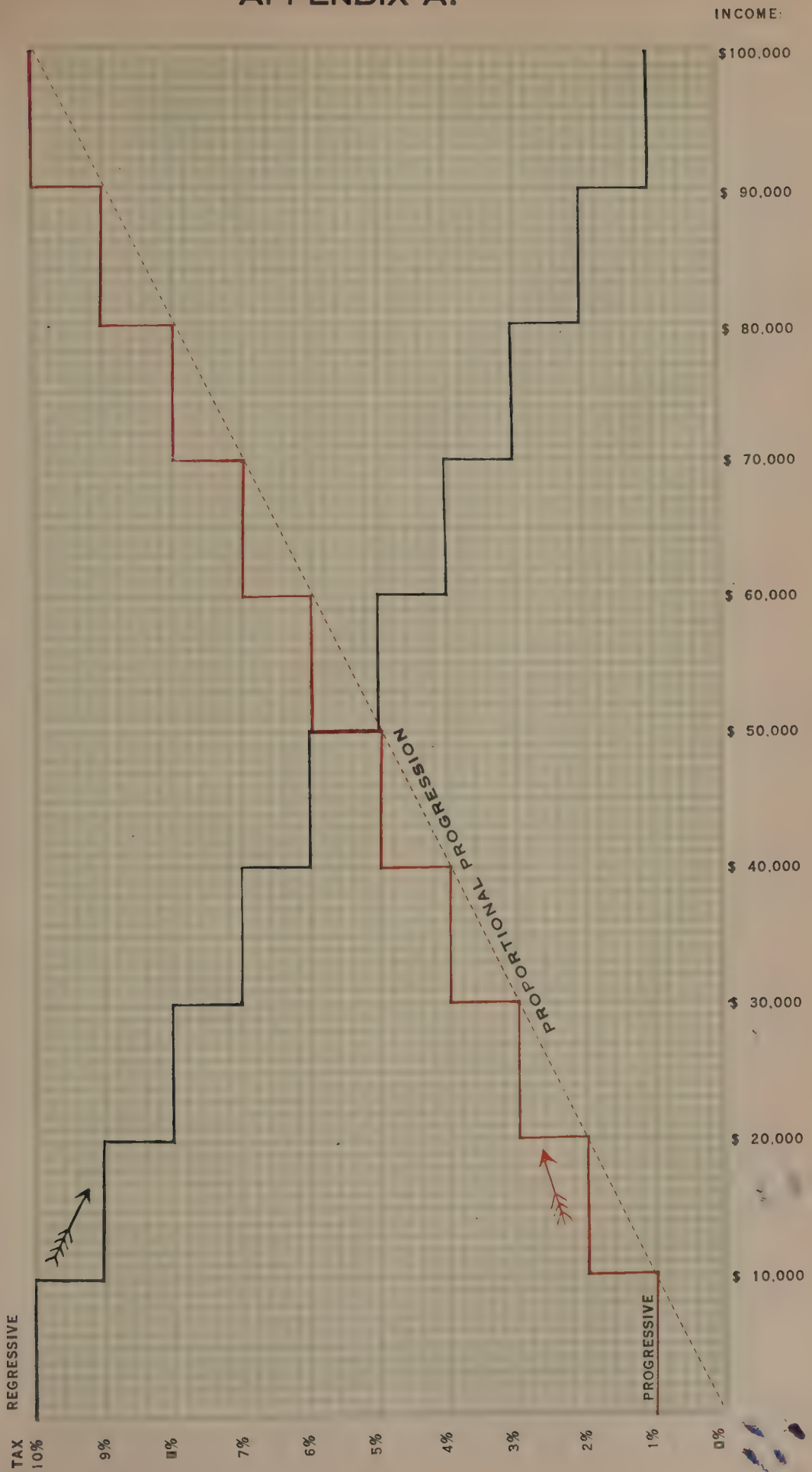
UPON APPENDIX A.

The lines shown upon the opposite page are simply designed to illustrate some of the definitions given in the first chapter. There is no country which has adopted rates corresponding to these lines. The red line represents a tax levied as follows:

Income		Tax	Income		Tax
\$ 1.00 to \$10,000		1%	\$50,000 to \$ 60,000		6%
10,000 "	20,000	2 "	60,000 "	70,000	7 "
20,000 "	30,000	3 "	70,000 "	80,000	8 "
30,000 "	40,000	4 "	80,000 "	90,000	9 "
40,000 "	50,000	5 "	90,000 "	100,000	10 "

It is a common and almost universal feature of progressive taxation that the grades are smaller and the rates increase more rapidly in the lower portions of the scale than in the higher. The "proportional progression" could be obtained by levying a tax of one cent upon the first dollar of income and adding one cent for each additional dollar. A proportional tax of one per cent would be represented by the red line, which starts at one per cent produced as a straight horizontal line across the page.

APPENDIX A.



REMARKS
UPON APPENDIX B.

It will be noticed that the red line is not a curve, but a succession of straight lines. This is due to the fact that the amount of tax for only ten points in the scale of rates for each country has been ascertained, and lines drawn which connected those points. If the average rate of tax had been computed for each one hundred dollars, up to one hundred thousand, the line produced by connecting the points thus ascertained would have been a more perfect curve. The irregularities in the curve, as for example the depression at \$15,000, can be traced to the disturbing influence of the proportional taxes accompanied by high exemptions.

APPENDIX B.

INCOME :

COMPOSITE LINE OF PROGRESSION OF RATES IN FORTY COUNTRIES.



REMARKS

UPON APPENDIX C.

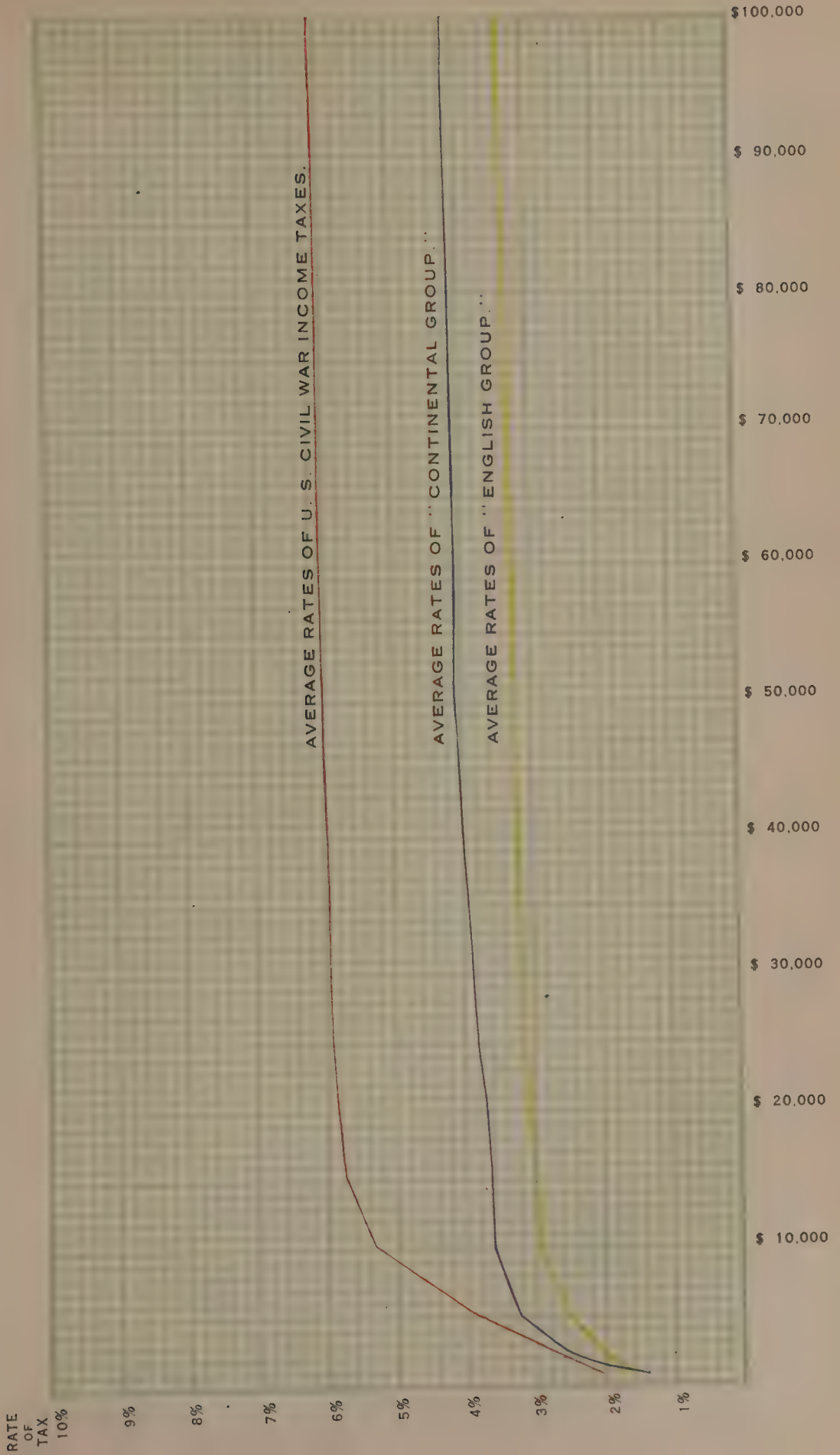
The line of the Civil War Income Tax has been added for the purpose of comparison with the average of foreign countries. The table obtained by combining the five Civil War income taxes for the same ten amounts used in the computations for foreign countries would be as follows:

Income	Amount of Tax	Percentage
\$ 500	0	0
1,000	\$ 21.33	\$2.13
2,000	54.80	2.74
5,000	195.80	3.91
10,000	532.80	5.33
15,000	867.40	5.78
20,000	1,172.40	5.86
25,000	1,477.40	5.91
50,000	3,002.40	6.
100,000	6,652.40	6.05

It must be borne in mind that there are several countries in the English and Continental groups which levy somewhat higher rates upon income from capital than upon income from labor. If these higher rates had been included in the computations the two lower lines would be raised slightly and the comparison with the Civil War Income Tax, where no attempt was made to segregate the earned income, would be more accurate.

APPENDIX C.

INCOME:



APPENDIX D.

TABLE OF RATES IN AUSTRIA.

No. of Grade	Income (Crowns) ¹		Tax (Crowns)	No. of Grade	Income (Crowns)		Tax (Crowns)
	from	to			from	to	
1	1,200	1,250	7.20	34	12,000	13,000	326
2	1,250	1,300	8	35	13,000	14,000	362
3	1,300	1,350	8.80	36	14,000	15,000	398
4	1,350	1,400	9.60	37	15,000	16,000	434
5	1,400	1,500	10.80	38	16,000	17,000	470
6	1,500	1,600	12	39	17,000	18,000	506
7	1,600	1,700	13.60	40	18,000	19,000	544
8	1,700	1,800	15.20	41	19,000	20,000	582
9	1,800	1,900	16.80	42	20,000	22,000	638
10	1,900	2,000	18.40	43	22,000	24,000	714
11	2,000	2,200	20	44	24,000	26,000	790
12	2,200	2,400	24	45	26,000	28,000	866
13	2,400	2,600	28	46	28,000	30,000	942
14	2,600	2,800	32	47	30,000	32,000	1,020
15	2,800	3,000	36	48	32,000	34,000	1,100
16	3,000	3,200	40	49	34,000	36,000	1,180
17	3,200	3,400	44	50	36,000	38,000	1,260
18	3,400	3,600	48	51	38,000	40,000	1,340
19	3,600	3,800	54	52	40,000	44,000	1,460
20	3,800	4,000	60	53	44,000	48,000	1,600
21	4,000	4,400	68	54	48,000	52,000	1,760
22	4,400	4,800	78	55	52,000	56,000	1,920
23	4,800	5,200	88	56	56,000	60,000	2,080
24	5,200	5,600	98	57	60,000	64,000	2,250
25	5,600	6,000	110	58	64,000	68,000	2,424
26	6,000	6,600	124	59	68,000	72,000	2,600
27	6,600	7,200	142	60	72,000	76,000	2,780
28	7,200	7,800	160	61	76,000	80,000	2,964
29	7,800	8,400	180	62	80,000	84,000	3,148
30	8,400	9,200	202	63	84,000	88,000	3,336
31	9,200	10,000	228	64	88,000	92,000	3,528
32	10,000	11,000	258	65	92,000	96,000	3,720 ²
33	11,000	12,000	292				

¹. As the Austrian Crown is equivalent to 20.3 cents the approximate equivalent of any of the above amounts in American money can be easily ascertained by dividing the amount by five.

². For amount of tax on larger amounts of income see Chapter III Ante.

APPENDIX E.

The following table, compiled from the Auditor's reports for the respective years, shows the amount of the tax upon incomes in North Carolina compared with the total state tax.

Year	Amount of Income Tax	Total State Tax
1849	\$28,277.19	\$ 141,609.01
1850	28,802.00	151,713.12
1867	3,838.97	226,765.00
1877	1,683.33	495,542.49
1890	2,112.34	601,249.91
1891	1,471.33	677,826.50
1892	931.43	661,409.03
1893	2,695.15	586,905.35
1894	2,822.02	571,310.06
1895	2,730.57	589,385.32
1896	3,460.02	604,542.01
1897	4,594.15	619,490.52
1898	4,251.44	627,081.42
1899	4,398.73	723,307.36
1901	19,030.79	908,035.80
1902	19,022.48	945,054.99
1903	23,509.77	1,120,644.88
1904	24,589.04	1,104,785.95
1905	27,844.13	1,130,661.20
1906	31,292.82	1,170,834.66
1907	36,829.44	1,366,587.80
1908	36,383.75	1,628,272.26

APPENDIX F.

STATEMENT OF APPROXIMATE AMOUNTS OF TAX AND PENALTIES ON CORPORATION ASSESSMENT LISTS FOR MONTHS OF JANUARY, FEBRUARY AND MARCH, 1910.

	Returns No. of	Tax	Penalties	Total
Alabama	3,185	\$ 144,666.45	\$ 2,214.28	\$ 146,880.73
Arkansas	1,814	58,020.74	389.69	58,410.43
California.....	15,812	1,069,985.47	1,957.90	1,071,943.37
Colorado	6,727	251,138.30	672.30	251,810.39
Connecticut	3,486	641,081.45	.....	641,081.45
Florida	858	61,332.13	1,125.78	62,457.91
Georgia	2,376	154,276.07	.....	154,276.07
Hawaii	417	124,143.58	.....	124,143.58
Illinois	14,759	2,482,355.45	13,065.29	2,495,420.74
Indiana	5,578	402,175.96	1,485.92	403,664.88
Iowa	5,081	186,086.75	431.30	186,518.05
Kansas	4,783	411,327.08	996.69	412,323.77
Kentucky	3,533	246,386.16	573.42	246,957.58
Louisiana	2,199	162,921.28	1,651.89	164,573.17
Maryland	3,902	520,007.93	37.70	520,045.63
Massachusetts	8,456	1,393,329.82	35.17	1,393,364.99
Michigan	5,728	773,854.77	6,034.92	779,889.69
Minnesota	3,339	1,122,480.38	6,277.52	1,128,757.90
Missouri	10,179	882,596.57	5,245.88	887,842.45
Montana	11,372	204,261.10	4,981.47	209,242.57
Nebraska	2,422	119,652.96	1,057.75	120,710.71
New Hampshire...	3,835	345,217.71	523.62	345,741.33
New Jersey.....	7,290	1,447,595.68	12,649.89	1,460,245.57
New Mexico.....	1,050	73,717.55	3,924.80	77,642.35
New York.....	24,710	5,283,261.26	11,675.34	5,294,936.60
N. and S. Dakota...	3,034	54,799.08	925.99	55,725.07
North Carolina....	2,939	67,131.17	652.00	67,783.17
Ohio	12,872	1,668,286.35	1,137.26	1,669,423.61
Oregon	3,067	149,734.90	514.60	150,249.50
Pennsylvania	14,840	3,275,200.33	1,176.58	3,276,376.91
S. Carolina.....	2,366	82,334.60	405.42	82,740.02
Tennessee	2,843	154,034.52	17.16	154,051.68
Texas	5,407	393,801.96	3,375.81	397,177.77
Virginia	2,700	345,041.56	1,497.11	346,538.67
Washington	6,763	241,190.19	7,876.46	249,066.65
W. Virginia.....	3,142	133,472.41	275.66	133,748.07
Wisconsin	7,128	582,145.51	184.22	582,329.73
Total.....	219,992	\$25,709,045.18	\$95,046.58	\$25,804,091.76
January	11,241			158,370.52
	231,243			\$25,962,462.28

Note: It appears by a statement made public November 27, 1910, that the total number of corporations was 262,490; the total net income \$3,125,470,000; total capital stock, \$52,371,626,752 and bonded and other indebtedness, \$31,133,052,696.

APPENDIX G.

VALUES OF FOREIGN COINS EXPRESSED IN AMERICAN CURRENCY.

Country	Coin	Dollars	Cents
Austria and Hungary..	Heller (100 Heller = 1 Krone) ..		00.2
Austria and Hungary..	Krone (Crown), (pl. Kroner)...		20.3
Norway.....	Krone (pl. Kroner).....		26.8
England.....	Pound Sterling.....	4	86.65
England.....	Shilling (12 pence).....		24.3
Finland.....	Markka (pl. Markkaa).....		19.3
France.....	Franc		19.3
France.....	Centime (100 Centimes = 1 Franc)		00.2
France.....	Livre (obsolete) = 1 Franc.		
France.....	Sol (obs.) = 1 Sou = 5 Centimes		
Germany.....	Mark		23.8
Germany.....	Pfennig (100 Pfennige = 1 Mark)		00.25
Greece.....	Drachma (pl. Drachmas).....		19.3
Greece.....	Lepta (100 Leptas = 1 Drachma)		00.2
Holland.....	Florin		40.2
Holland.....	Gulden or Guilder (modern)....		40.2
India.....	Rupee		32.44 1-3
Italy.....	Lira (pl. lire).....		19.3
Japan.....	Yen		49.8
Panama.....	Balboa (Gold).....	1	
Philippines.....	Pesa		50.
Russia.....	Ruble		51.5
Spain.....	Peseta		19.3
Sweden.....	Krona (pl. Kronor).....		26.8

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